

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Revenue bonds: The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. During the year, the City has incurred revenue bond debt for wastewater system and water system improvements. Under two revenue bond issues – Wastewater System Revenue Bonds (September 26, 2002) not to exceed \$9,000,000; and Water Supply System Revenue Bonds, Series 2003, (September 26, 2002) not to exceed \$8,000,000, funding is provided for improvements in the wastewater and water systems.

These bond issues were purchased by the Michigan Municipal Bond Authority under the Drinking Water Revolving Fund (DWRF). Under the purchase contract, the City has received the principal proceeds as loan draw-downs as the construction costs were incurred. At June 30, 2004, the final Wastewater System loan/bond balance outstanding was \$8,920,000, and the Water System loan/bond balance was \$5,665,000.

Revenue bonds outstanding at June 30, 2004 are as follows:

<u>Purpose</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Annual Principal Payments</u>	<u>Balance Outstanding</u>
Wastewater System Improvements	9/26/02	\$ 8,920,000	2.5%	10/01/2023	\$ 350,000 to 560,000	\$ 8,920,000
Water System Improvements	9/26/02	5,665,000	2.5%	10/01/2023	\$ 220,000 to 355,000	5,665,000
						<u>\$ 14,585,000</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 570,000	\$ 353,153
2006	580,000	343,125
2007	600,000	328,375
2008	615,000	313,187
2009	630,000	297,625
2010 – 2023	<u>11,590,000</u>	<u>2,308,250</u>
	<u>\$ 14,585,000</u>	<u>\$ 3,943,715</u>

Reimbursement obligation

The Local Development Finance Authority, a discretely presented component unit, is obligated to pay under a reimbursement agreement a manufacturing firm for construction costs incurred in regard to on-site improvements made at the Beecher Street Industrial Park. The amount to be paid is \$800,000 with interest at 10% per annum. Principal payments are scheduled at \$50,000 per year starting June 1, 1993 thru June 1, 2008; however, the payments of principal and interest are subject to limitation by the amount on tax increment revenue available in LDFA. Insufficient tax revenues and the resulting inability to pay the debt obligations in full does not constitute a default. Nor does the City have any direct responsibility in paying any shortfalls.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

There were insufficient funds in the LDFA to pay the full obligation under this reimbursement agreement in fiscal years 2003-04 and 2002-03. The outstanding balance on the debt obligation was \$764,100 at June 30, 2004.

Future principal and interest payments on this obligation will vary depending upon the tax increment revenues collected. For this reason, a schedule of future debt service requirements is not presented.

The Local Development Finance Authority also has a reimbursement agreement with the City of Adrian. This agreement also pays back the City for costs it incurred for on-site improvements at the Beecher Street Industrial Park. This total amount is \$120,000 with interest at 8% per annum. Principal payments are scheduled at \$7,500 per year starting June 1, 1993 thru June 1, 2008. Payments of principal and interest are subject to limitation by the amount of tax increment revenue collected. However, the City has priority of payment on its obligation from LDFA over that of the manufacturing firm.

No schedule of indebtedness or of future debt service requirements is shown since this obligation is owed to the City.

CHANGES IN LONG TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Installment purchase obligations	\$ 2,000,391	\$	\$ (189,583)	\$ 1,810,808	\$ 198,448
Accrued sick and vacation	<u>367,701</u>	<u>824,448</u>	<u>(882,606)</u>	<u>309,543</u>	<u>178,820</u>
Governmental activity - long-term liability	<u>\$ 2,368,092</u>	<u>\$ 824,448</u>	<u>\$ (1,072,189)</u>	<u>\$ 2,120,351</u>	<u>\$ 377,268</u>
Business-type activities:					
General obligation bonds	\$ 485,000	\$	\$ (140,000)	\$ 345,000	\$ 145,000
Revenue bonds	<u>8,047,557</u>	<u>6,787,443</u>	<u>(250,000)</u>	<u>14,585,000</u>	<u>570,000</u>
Total bonds payable	8,532,557	6,787,443	(390,000)	14,930,000	715,000
Accrued sick and vacation	<u>147,474</u>	<u>453,127</u>	<u>(490,010)</u>	<u>110,591</u>	<u>48,387</u>
Business-type activity - long-term liability	<u>\$ 8,680,031</u>	<u>\$ 7,240,570</u>	<u>\$ (880,010)</u>	<u>\$ 15,040,591</u>	<u>\$ 763,387</u>

For the governmental activities, compensated absences are generally liquidated by the General Fund.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

CHANGES IN LONG TERM LIABILITIES

Component units:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
DDA – general obligation bonds	\$ 750,000	\$	\$ (85,000)	\$ 665,000	\$ 90,000
LDFA – reimbursement obligation	<u>764,100</u>	<u></u>	<u></u>	<u>764,100</u>	<u></u>
Component units – long term liabilities	<u>\$ 1,514,100</u>	<u>\$ -</u>	<u>\$ (85,000)</u>	<u>\$ 1,429,100</u>	<u>\$ 90,000</u>

F. Segment information

The City has revenue bonds related to the Wastewater and Water System Funds. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment.

Since both the Wastewater System Fund and the Water System Fund are major enterprise funds in the financial statements, all pertinent data is disclosed in the basic financial statements presented.

G. Restricted assets in Downtown Development Authority

In 1998-99, the Adrian Central Business District Improvement Corporation (CBDIC), a local nonprofit corporation, dissolved and transferred all its assets and liabilities to the City of Adrian under the Downtown Development Authority.

The City has invested the former CBDIC funds of \$80,670 at June 30, 2004 which are restricted for future Downtown Adrian projects.

NOTE 4. OTHER INFORMATION

A. Risk management – insurance pools

The City of Adrian is a member of the Michigan Municipal Liability and Property Pool for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. Both pools are under the Michigan Municipal Program sponsored by the Michigan Municipal League.

The City pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess to a minimum of \$1,000,000 for specific occurrence, and to a minimum of \$2,000,000 in aggregate in excess of the pool loss reserve fund.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 4. OTHER INFORMATION (Continued)

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with the City of Adrian and the pools to which it belongs.

B. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

C. Retirement plan

Plan description

The City contributes to the Michigan Municipal Employees' Retirement System (MERS), an agent multi-employer defined benefit pension plan, which provides retirement benefits to all full-time employees of the City. MERS is administered by its Board of Trustees. The actuary for the System is the Gabriel, Roeder, Smith & Company. The Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220 of the State of Michigan, assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; for the City of Adrian, that authority rests with the City. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917.

Funding policy

Employees contribute a percent of their annual compensation, as selected by the municipality. A 3%/5% contribution program was available prior to 1985 and may be continued, but not adopted after 1984. Under this program, the employee contributes 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. The City is required to contribute at a actuarially determined rate per City Division; the current rates vary from 5.53% to 33.41% of compensation per Division. The contribution requirements for the City are determined by the System's actuary.

Annual pension cost

For the year ended June 30, 2004, the City's annual pension cost of \$384,343 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included -

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 4. OTHER INFORMATION (Continued)

- [a] 8.0% investment rate of return,
- [b] projected salary increases of 4.5% per year compounded annually,
- [c] additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable seniority/merit, and promotional salary increases,
- [d] the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefits E-1 or E-2, and
- [e] based under Benefits E-1 or E-2, inflation rate assumption is 2.5% annually

The actuarial value of MERS' assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a five year period.

Unfunded actuarial accrued liability is amortized by level percentage of payroll contributions over a period of years. The standard amortization period to fund the unfunded liability is 30 years, with this time period reestablished with each annual actuarial valuation. Overfunded actuarial accrued liability is amortized over 10 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Recognized</u>	<u>Net Pension Obligation</u>
6/30/02	\$ 299,351	100%	0
6/30/03	304,518	100%	0
6/30/04	384,343	100%	0

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 4. OTHER INFORMATION (Continued)

Actuarial Accrued Liability (as of 12/31/03)

Retirees and beneficiaries currently receiving benefits	\$ 20,185,026
Terminated employees not yet receiving benefits	1,054,246
Nonvested terminated employees (pending refunds of accumulated member contributions)	52,640
Current employees --	
Accumulated employee contributions including allocated investment income	3,486,929
Employer financed	<u>12,222,187</u>
 Total Actuarial Accrued Liability	 37,001,028
 Net Assets Available for Benefits at Actuarial Value	 <u>34,241,034</u>
 (Market Value is \$31,265,753)	
 Unfunded (Overfunded) Actuarial Accrued Liability	 <u>\$ 2,759,994</u>

D. Deferred compensation plan

The government offers its employees a deferred compensation plan (the plan of International City Management Association Retirement Corporation (ICMA)) created in accordance with Internal Revenue Code Section 457, amended August 20, 1996. The plan, available to all government employees, permits them to defer a portion of their salary, up to 100% of annual salary or \$13,000 whichever is less, until future years. Participation in the plan is optional.

Under the deferred compensation plan, all assets and income of the plan described in subsection (b) (6) are held in trust for the exclusive benefit of participants and their beneficiaries.

Investments are managed by the plan's trustees under one of four investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

The market value of the investments at June 30, 2004 was \$4,132,380.

Since the City has no significant administrative involvement with the assets of the deferred compensation plan, nor does it perform investment functions for the Plan, the deferred compensation plan is not shown in the financial statements.

E. Retirement Health Savings Plan

The City has a health savings plan for non-union and certain union employees. The plan provides funds (savings) to participating employees upon retirement for health insurance premiums and other health costs. The City made contributions to the plan (\$61,644 in fiscal year 2003-04) during employment, but no additional funding is provided after retirement. The plan had investments of \$168,922 at June 30, 2004.

CITY OF ADRIAN, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2004

CITY'S DEFINED BENEFIT PENSION PLAN (MERS)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) Entry Age [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/98	\$ 26,798,128	\$ 25,375,847	\$ (1,422,281)	105.6%	\$ 5,704,821	\$ (24.93%)
12/31/99	30,087,599	27,691,045	(2,396,554)	108.7%	5,579,669	(42.95%)
12/31/00	32,184,883	31,275,689	(909,194)	102.9%	6,119,081	(14.80%)
12/31/01	33,449,560	33,579,131	129,571	99.6%	6,201,978	2.09%
12/31/02	33,080,222	34,645,351	1,565,129	95.4%	6,360,989	24.61%
12/31/03	34,241,034	37,001,028	2,759,994	92.5%	6,847,899	40.3%

CITY OF ADRIAN, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for a particular purpose.

MUNICIPAL STREET FUND: This fund was established to demonstrate that all revenues from the millage for road improvements were used as specified.

COMMUNITY DEVELOPMENT FUND: This fund was established to demonstrate that all revenues from the Community Development Grant were used as specified. The Housing Loan Program continues to provide revenue as the loans are repaid.

ECONOMIC DEVELOPMENT FUND: This fund was established to demonstrate that all revenues from the local gas utility company were used as specified.

OMNI FUND: This fund was established to show revenues and expenditures for the federally funded OMNI Drug Unit.

PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the City's programs.

ENDOWMENT TRUST FUND: This fund is used to account for principal trust amounts received for which interest income earned is used for donor specified programs related to the City.

PERPETUAL CARE FUND: This fund is used to account for principal trust amounts received for which interest income earned is used for expenditures pertaining to the City's cemetery.

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CITY OF ADRIAN, MICHIGAN

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2004
With Comparative Totals for June 30, 2003

SPECIAL REVENUE FUNDS

<u>ASSETS</u>	<u>Municipal Streets</u>	<u>Community Development</u>	<u>Economic Development</u>	<u>OMNI</u>	<u>Total</u>
Cash and cash equivalents	\$ 519,712	\$ 280,951	\$ 95,192	\$ 152,115	\$ 1,047,970
Investments					
Loans receivable		256,888			256,888
Accounts receivable – other		164,637			164,637
Cemetery lots					
Due from other funds		47,084			47,084
Total assets	<u>\$ 519,712</u>	<u>\$ 749,560</u>	<u>\$ 95,192</u>	<u>\$ 152,115</u>	<u>\$ 1,516,579</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Vouchers payable	\$	\$ 64	\$ 5,528	\$ 5,427	\$ 11,019
Accrued liabilities		2,664			2,664
Due to other funds	<u>512,988</u>	<u>4,559</u>	<u>7,468</u>	<u>22</u>	<u>525,037</u>
Total liabilities	<u>512,988</u>	<u>7,287</u>	<u>12,996</u>	<u>5,449</u>	<u>538,720</u>
Fund balances:					
Reserved for lots inventory					
Reserved for perpetual care					
Reserved for endowments					
Reserved for loans		256,888			256,888
Reserved for encumbrances			8,878		8,878
Unreserved, undesignated	<u>6,724</u>	<u>485,385</u>	<u>73,318</u>	<u>146,666</u>	<u>712,093</u>
Total fund balances	<u>6,724</u>	<u>742,273</u>	<u>82,196</u>	<u>146,666</u>	<u>977,859</u>
Total liabilities and fund balance	<u>\$ 519,712</u>	<u>\$ 749,560</u>	<u>\$ 95,192</u>	<u>\$ 152,115</u>	<u>\$ 1,516,579</u>

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CITY OF ADRIAN, MICHIGAN

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2004
With Comparative Totals for June 30, 2003

PERMANENT FUNDS

Endowment <u>Trust</u>	Perpetual <u>Care</u>	<u>Total</u>	Totals Nonmajor Governmental Funds	
			<u>2004</u>	<u>2003</u>
\$ 7,574	\$ 38,358	\$ 45,932	\$ 1,093,902	\$ 885,030
194,760	713,516	908,276	908,276	1,230,519
			256,888	369,292
			164,637	
	7,499	7,499	7,499	7,499
			47,084	
<u>\$ 202,334</u>	<u>\$ 759,373</u>	<u>\$ 961,707</u>	<u>\$ 2,478,286</u>	<u>\$ 2,492,340</u>
\$	\$	\$	\$ 11,019	\$ 40,081
			2,664	5,041
<u>3,436</u>	<u>290</u>	<u>3,726</u>	<u>528,763</u>	<u>48,019</u>
<u>3,436</u>	<u>290</u>	<u>3,726</u>	<u>542,446</u>	<u>93,141</u>
	7,499	7,499	7,499	
	751,584	751,584	751,584	721,745
198,898		198,898	198,898	198,309
			256,888	369,292
			8,878	3,582
			712,093	1,106,271
<u>198,898</u>	<u>759,083</u>	<u>957,981</u>	<u>1,935,840</u>	<u>2,399,199</u>
<u>\$ 202,334</u>	<u>\$ 759,373</u>	<u>\$ 961,707</u>	<u>\$ 2,478,286</u>	<u>\$ 2,492,340</u>

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CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For Fiscal Year Ended June 30, 2004
With Comparative Totals for Fiscal Year Ended June 30, 2003

SPECIAL REVENUE FUNDS

	<u>Municipal Streets</u>	<u>Community Development</u>	<u>Economic Development</u>	<u>OMNI</u>	<u>Total</u>
Revenues:					
Taxes	\$ 391,734	\$ 78,597	\$ 202	\$ 594	\$ 391,734
Intergovernmental – Federal		14,071			78,597
Investment earnings	6,243	386,548	127,000	66,015	21,110
Other	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>397,977</u>	<u>479,216</u>	<u>127,202</u>	<u>66,609</u>	<u>1,071,004</u>
Expenditures:					
Community/Economic Development		555,891	59,509		615,400
Public safety				63,728	63,728
Other services	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>-</u>	<u>555,891</u>	<u>59,509</u>	<u>63,728</u>	<u>679,128</u>
Excess (deficiency) of revenues over (under) expenditures	<u>397,977</u>	<u>(76,675)</u>	<u>67,693</u>	<u>2,881</u>	<u>391,876</u>
Other financing sources (uses):					
Transfers in		49,866			49,866
Transfers out	<u>(912,988)</u>	<u>(5,040)</u>	<u>(25,000)</u>	<u> </u>	<u>(943,028)</u>
Total other financing sources (uses)	<u>(912,988)</u>	<u>44,826</u>	<u>(25,000)</u>	<u>-</u>	<u>(893,162)</u>
Net changes in fund balances	(515,011)	(31,849)	42,693	2,881	(501,286)
Fund balances – beginning of year	<u>521,735</u>	<u>774,122</u>	<u>39,503</u>	<u>143,785</u>	<u>1,479,145</u>
Fund balances – end of year	<u>\$ 6,724</u>	<u>\$ 742,273</u>	<u>\$ 82,196</u>	<u>\$ 146,666</u>	<u>\$ 977,859</u>

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CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For Fiscal Year Ended June 30, 2004
With Comparative Totals for Fiscal Year ended June 30, 2003

<u>PERMANENT FUNDS</u>			Totals Nonmajor Governmental Funds	
<u>Endowment Trust</u>	<u>Perpetual Care</u>	<u>Total</u>	<u>2004</u>	<u>2003</u>
\$	\$	\$	\$ 391,734	\$ 386,543
690	15,731	16,421	78,597	765,774
	<u>21,607</u>	<u>21,607</u>	<u>37,531</u>	<u>68,781</u>
			<u>601,170</u>	<u>619,284</u>
<u>690</u>	<u>37,338</u>	<u>38,028</u>	<u>1,109,032</u>	<u>1,840,382</u>
			615,400	1,424,600
			63,728	88,962
<u>101</u>		<u>101</u>	<u>101</u>	<u>2,911</u>
<u>101</u>	<u>-</u>	<u>101</u>	<u>679,229</u>	<u>1,516,473</u>
<u>589</u>	<u>37,338</u>	<u>37,927</u>	<u>429,803</u>	<u>323,909</u>
			49,866	
			<u>(943,028)</u>	<u>(379,745)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(893,162)</u>	<u>(379,745)</u>
589	37,338	37,927	(463,359)	(55,836)
<u>198,309</u>	<u>721,745</u>	<u>920,054</u>	<u>2,399,199</u>	<u>2,455,035</u>
<u>\$ 198,898</u>	<u>\$ 759,083</u>	<u>\$ 957,981</u>	<u>\$ 1,935,840</u>	<u>\$ 2,399,199</u>

CITY OF ADRIAN, MICHIGAN

MUNICIPAL STREET SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:	\$ 360,000	\$ 372,000	\$ 391,734	\$ 19,734
Property tax	<u>2,230</u>	<u>6,230</u>	<u>6,243</u>	<u>13</u>
Investment earnings				
Total revenues	362,230	378,230	397,977	19,747
Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	362,230	378,230	397,977	19,747
Other financing uses:				
Transfers out	<u>(362,230)</u>	<u>(912,988)</u>	<u>(912,988)</u>	<u>-</u>
Net change in fund balance	-	(534,758)	(515,011)	19,747
Fund balance - beginning of year	<u>521,735</u>	<u>521,735</u>	<u>521,735</u>	<u>-</u>
Fund balance - end of year	<u>\$ 521,735</u>	<u>\$ (13,023)</u>	<u>\$ 6,724</u>	<u>\$ 19,747</u>

CITY OF ADRIAN, MICHIGAN

COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$	\$ 254,800	\$ 78,597	\$ (176,203)
Investment earnings	21,185	17,185	14,071	(3,114)
Other	<u>202,200</u>	<u>194,200</u>	<u>386,548</u>	<u>192,348</u>
Total revenues	223,385	466,185	479,216	13,031
Expenditures:				
Other services:				
Community development	<u>223,385</u>	<u>517,227</u>	<u>555,891</u>	<u>(38,664)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(51,042)</u>	<u>(76,675)</u>	<u>(25,633)</u>
Other financing sources (uses):				
Transfers in		56,000	49,866	(6,134)
Transfers out		<u>(5,040)</u>	<u>(5,040)</u>	
Total other financing sources (uses)	<u>-</u>	<u>50,960</u>	<u>44,826</u>	<u>(31,767)</u>
Net change in fund balance	-	(82)	(31,849)	(31,767)
Fund balance - beginning of year	<u>774,122</u>	<u>774,122</u>	<u>774,122</u>	-
Fund balance - end of year	<u>\$ 774,122</u>	<u>\$ 774,040</u>	<u>\$ 742,273</u>	<u>\$ (31,767)</u>

CITY OF ADRIAN, MICHIGAN

ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment earnings	\$ 150	\$ 200	\$ 202	\$ 2
Donations	<u>100,000</u>	<u>100,000</u>	<u>127,000</u>	<u>27,000</u>
Total revenues	100,150	100,200	127,202	27,002
Expenditures:				
Other services:				
Economic development	<u>75,150</u>	<u>79,150</u>	<u>59,509</u>	<u>19,641</u>
Excess of revenues over expenditures	25,000	21,050	67,693	46,643
Other financing uses:				
Transfers out	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
Net change in fund balance	-	(3,950)	42,693	46,643
Fund balance - beginning of year	<u>39,503</u>	<u>39,503</u>	<u>39,503</u>	<u>-</u>
Fund balance - end of year	<u>\$ 39,503</u>	<u>\$ 35,553</u>	<u>\$ 82,196</u>	<u>\$ 46,643</u>

CITY OF ADRIAN, MICHIGAN

OMNI SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE --
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
OMNI forfeitures	\$ 42,900	\$ 42,900	\$ 49,365	\$ 6,465
Investment earnings	500	500	594	94
Other	<u>8,600</u>	<u>18,600</u>	<u>16,650</u>	<u>(1,950)</u>
Total revenues	52,000	62,000	66,609	4,609
Expenditures:				
Public safety, OMNI	<u>52,000</u>	<u>62,000</u>	<u>63,728</u>	<u>(1,728)</u>
Excess of revenues over expenditures	-	-	2,881	2,881
Fund balance - beginning of year	<u>143,785</u>	<u>143,785</u>	<u>143,785</u>	-
Fund balance - end of year	<u>\$ 143,785</u>	<u>\$ 143,785</u>	<u>\$ 146,666</u>	<u>\$ 2,881</u>

CITY OF ADRIAN, MICHIGAN

NON MAJOR ENTERPRISE FUNDS

The function of the Enterprise Funds is to record the financial, acquisition, operation and maintenance of City activities that are entirely or predominantly self-supporting from user charges.

CAPITAL PROJECTS REVOLVING FUND: This fund is used to provide financing for capital projects of the City.

DIAL-A-RIDE SYSTEM FUND: This fund is used to account for the operation of the City's public transportation system. State and federal grants, farebox revenues and a City subsidy provide funding for the system

AUTOMOBILE PARKING SYSTEM FUND: This fund is used to account for the activities of the auto parking system. Parking fees and fines are the main revenue sources. Expenses are related to maintenance and operation of the parking lots.

STORM WATER UTILITY FUND: This fund is used to account for the acquisition, operation and maintenance of the City's storm water system.

CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF NET ASSETS

NONMAJOR ENTERPRISE FUNDS

June 30, 2004
With Comparative Totals for June 30, 2003

ASSETS	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Totals Nonmajor Enterprise Funds
				2004	2003
Current assets:					
Cash and cash equivalents	\$ 151,572	\$	\$ 1,270	\$ 22,854	\$ 79,498
Receivables:					
Special assessments	481,602		20,171	481,602	515,302
Due from other funds		55,580		49,611	
Due from other governments				55,580	58,445
Total current assets	<u>633,174</u>	<u>55,580</u>	<u>21,441</u>	<u>762,489</u>	<u>653,245</u>
Noncurrent assets:					
Restricted assets – cash and investments:					
Bond interest and redemption			47,410	5,973	54,968
account – cash					
Total restricted assets	<u>-</u>	<u>-</u>	<u>47,410</u>	<u>5,973</u>	<u>54,968</u>
Capital assets:					
Land			638,500		638,500
Utility systems				2,380,243	2,380,243
Land improvements			720,573	861,435	1,582,008
Equipment		507,988	156,033	664,021	613,910
Less: Accumulated depreciation		(256,858)	(468,768)	(1,136,251)	(1,753,485)
Net capital assets	<u>-</u>	<u>251,130</u>	<u>1,046,338</u>	<u>2,105,427</u>	<u>3,461,176</u>
Total noncurrent assets	<u>-</u>	<u>251,130</u>	<u>1,093,748</u>	<u>2,111,400</u>	<u>3,516,144</u>
Total assets	<u>\$ 633,174</u>	<u>\$ 306,710</u>	<u>\$ 1,115,189</u>	<u>\$ 2,163,694</u>	<u>\$ 4,169,389</u>

	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Totals Nonmajor Enterprise Funds 2004	2003
LIABILITIES						
Current liabilities:						
Vouchers payable	\$	\$ 4,262	\$ 566	\$ 2,734	\$ 7,562	\$ 13,108
Accrued liabilities			369	2,158	2,527	957
Due to other funds	53,240	45,891		28,998	128,129	64,489
Due to other governments		5,427			5,427	4,522
General obligation bonds payable – current			50,000	95,000	145,000	140,000
Total current liabilities	53,240	55,580	50,935	128,890	288,645	223,076
Current liabilities payable from restricted assets:						
Accrued interest			1,149	5,973	7,122	8,265
Total current liabilities payable from restricted assets	-	-	1,149	5,973	7,122	8,265
Noncurrent liabilities:						
General obligation bonds				200,000	200,000	345,000
Total noncurrent liabilities				200,000	200,000	345,000
Total liabilities	53,240	55,580	52,084	334,863	495,767	576,341
NET ASSETS						
Invested in capital assets net of related debt		251,130	996,338	1,810,427	3,057,895	2,976,176
Restricted for debt service			46,261		46,261	46,703
Unrestricted	579,934		20,506	18,404	618,844	570,169
Total net assets	579,934	251,130	1,063,105	1,828,831	3,723,000	3,593,048

CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

NONMAJOR ENTERPRISE FUNDS

For Fiscal Year Ended June 30, 2004
With Comparative Totals for Fiscal Year Ended June 30, 2003

	Capital Projects <u>Revolving Fund</u>	Dial-A-Ride <u>System</u>	Automobile <u>Parking System</u>	Storm Water <u>Utility</u>	Totals Nonmajor Enterprise Funds
					2004 2003
Operating revenues:					
Charges for services	\$	\$ 62,691	\$ 111,815	\$ 263,965	\$ 438,471 \$ 414,998
Miscellaneous					1,190
Total operating revenues	-	62,691	111,815	263,965	438,471 416,188
Operating expenses:					
Cost of services		389,714	91,541	150,626	631,881 557,496
Depreciation		50,478	16,883	41,030	108,391 99,465
Total operating expenses	-	440,192	108,424	191,656	740,272 656,961
Operating income (loss)	-	(377,501)	3,391	72,309	(301,801) (240,773)
Nonoperating revenues (expenses):					
Intergovernmental – State		162,797			162,797 168,195
Intergovernmental – Federal		42,674			42,674 40,736
Interest revenue	27,563		82	139	27,784 25,895
Interest expense			(4,545)	(16,195)	(20,740) (25,378)
Total nonoperating revenues (expenses)	27,563	205,471	(4,463)	(16,056)	212,515 209,448

	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Totals Nonmajor Enterprise Funds
					2004
					2003
Income (loss) before contributions and transfer	\$ 27,563	\$ (172,030)	\$ (1,072)	\$ 56,253	\$ (31,325)
Capital contribution – State Transfer in		50,111 <u>121,552</u>	<u>47,575</u>	50,111 <u>169,127</u>	94,942 <u>100,433</u>
Change in net assets	27,563	(367)	46,503	56,253	164,050
Total net assets – beginning of year	<u>552,371</u>	<u>251,497</u>	<u>1,016,602</u>	<u>1,772,578</u>	<u>3,428,998</u>
Total net assets – end of year	<u>\$ 579,934</u>	<u>\$ 251,130</u>	<u>\$ 1,063,105</u>	<u>\$ 1,828,831</u>	<u>\$ 3,593,048</u>

CITY OF ADRIAN, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS

NONMAJOR ENTERPRISE FUNDS

For Fiscal Year Ended June 30, 2004
 With Comparative Totals for Fiscal Year Ended June 30, 2003

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	2004	2003
						Totals
						Nonmajor
						Enterprise Funds
Cash flows from operating activities:						
Cash received from customers	\$	\$ 62,691	\$ 91,644	\$ 234,525	\$ 388,860	\$ 416,188
Cash paid to suppliers		(172,441)	(56,908)	(83,674)	(313,023)	(303,249)
Cash paid to employees		(218,420)	(38,548)	(52,842)	(309,810)	(274,577)
Net cash provided by (used in) operating activities	-	(328,170)	(3,812)	98,009	(233,973)	(161,638)
Cash flows from noncapital financing activities:						
Cash received - Federal		41,566			41,566	38,957
Cash received - State		166,770			166,770	164,658
Transfers from General Fund		119,834	47,575		167,409	101,886
Net cash provided by noncapital financing activities	-	328,170	47,575	-	375,745	305,501
Cash flows from capital and related financing activities:						
Principal paid on general obligation bonds			(50,000)	(90,000)	(140,000)	(135,000)
Interest paid and agent fees on general obligation bonds			(5,688)	(16,195)	(21,883)	(28,364)
Special assessments					153,424	267,840
Special assessment revenue provided to other funds	153,424				(66,484)	(396,751)
Net cash used in capital and related financing activities	86,940	-	(55,688)	(106,195)	(74,943)	(292,275)

	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Totals Nonmajor Enterprise Funds
	2004	2004	2004	2004	2003
Cash flows from investing activities:					
Interest income	\$ 27,563	\$ -	\$ 82	\$ 139	\$ 27,784
Net cash provided by investing activities	<u>27,563</u>	<u>-</u>	<u>82</u>	<u>139</u>	<u>27,784</u>
Net increase (decrease) in cash and cash equivalents	114,503		(11,843)	(8,047)	94,613
Cash and cash equivalents at beginning of year	<u>37,069</u>	<u>-</u>	<u>60,523</u>	<u>36,874</u>	<u>134,466</u>
Cash and cash equivalents at end of year	<u>\$ 151,572</u>	<u>\$ -</u>	<u>\$ 48,680</u>	<u>\$ 28,827</u>	<u>\$ 229,079</u>
					<u>\$ 134,466</u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES**

Operating income (loss)	\$ -	\$ (377,501)	\$ 3,391	\$ 72,309	\$ (301,801)	\$ (240,773)
Adjustments to reconcile operating income (loss) to net cash provide by (used in) operating activities:						
Depreciation						
Change in Assets and Liabilities:						
Increase (decrease) in due from other funds		50,478	16,883	41,030	108,391	99,465
Increase (decrease) in vouchers payable			(20,171)	(29,440)	(49,611)	2,117
Increase (decrease) in due to County		(2,052)	145	(3,638)	(5,545)	910
Increase (decrease) in accrued payroll and liabilities		905			905	
Increase (decrease) in due to other funds			(222)	1,792	1,570	436
			(3,838)	15,956	12,118	(23,793)
Total adjustments	-	49,331	(7,203)	25,700	67,828	79,135
Net cash provided by (used in) operating activities	<u>\$ -</u>	<u>\$ (328,170)</u>	<u>\$ (3,812)</u>	<u>\$ 98,009</u>	<u>\$ (233,973)</u>	<u>\$ (161,638)</u>

CITY OF ADRIAN, MICHIGAN
CAPITAL PROJECTS REVOLVING ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2004 and 2003

	<u>ASSETS</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current assets:			
Cash		\$ 151,572	\$ 37,069
Receivables:			
Special assessments		<u>481,602</u>	<u>515,302</u>
Total assets		<u>\$ 633,174</u>	<u>\$ 552,371</u>
 <u>LIABILITIES AND NET ASSETS</u>			
Current liabilities:			
Due to General Fund		<u>\$ 53,240</u>	<u>\$ -</u>
Total liabilities		<u>53,240</u>	<u>-</u>
Net assets – unrestricted		<u>579,934</u>	<u>\$ 552,371</u>
Total net assets		<u>\$ 579,934</u>	<u>\$ 552,371</u>

CITY OF ADRIAN, MICHIGAN
CAPITAL PROJECTS REVOLVING ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS

For Fiscal Years Ended June 30, 2004 and 2003

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Operating revenues	\$ -	\$ -
Operating expenses	-	-
Operating income	-	-
Nonoperating revenues (expenses):		
Interest revenue	<u>27,563</u>	<u>24,514</u>
Change in net assets	27,563	24,514
Total net assets – beginning of year	<u>552,371</u>	<u>527,857</u>
Total net assets – end of year	<u>\$ 579,934</u>	<u>\$ 552,371</u>

CITY OF ADRIAN, MICHIGAN
CAPITAL PROJECTS REVOLVING ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For Fiscal Years Ended June 30, 2004 and 2003
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	\$ -	\$ -
Cash flows from noncapital financing activities:		
Net cash provided by (used in) noncapital financing activities	-	-
Cash flows from capital and related financing activities:		
Cash received on special assessment	153,424	267,840
Special assessment revenue provided to other funds	<u>(66,484)</u>	<u>(396,751)</u>
Net cash provided by (used in) capital and related financing activities	86,940	(128,911)
Cash flows from investing activities:		
Interest	<u>27,563</u>	<u>24,514</u>
Net increase (decrease) in cash and cash equivalents	114,503	(104,397)
Cash and cash equivalents at beginning of year	<u>37,069</u>	<u>141,466</u>
Cash and cash equivalents at end of year	<u>\$ 151,572</u>	<u>\$ 37,069</u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES**

Operating income	\$ -	\$ -
Adjustments to reconcile operating income to net cash provided by (used in) operating activities	-	-
Net cash provided by (used in) operating activities	<u>\$ -</u>	<u>\$ -</u>

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS

June 30, 2004 and 2003

<u>ASSETS</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current assets:		
Due from other governments:		
Federal	\$ 16,329	\$ 15,221
State	<u>39,251</u>	<u>43,224</u>
Total current assets	<u>55,580</u>	<u>58,445</u>
Noncurrent assets:		
Capital assets:		
Equipment	507,988	457,877
Accumulated depreciation	<u>(256,858)</u>	<u>(206,380)</u>
Net capital assets	<u>251,130</u>	<u>251,497</u>
Total noncurrent assets	<u>251,130</u>	<u>251,497</u>
Total assets	<u>\$ 306,710</u>	<u>\$ 309,942</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Vouchers payable	\$ 4,262	\$ 6,314
Due to other governments:		
County	5,427	4,522
Due to other funds – General	<u>45,891</u>	<u>47,609</u>
Total current liabilities	<u>55,580</u>	<u>58,445</u>
Net assets:		
Invested in net assets, net of related debt	<u>251,130</u>	<u>251,497</u>
Total net assets	<u>\$ 251,130</u>	<u>\$ 251,497</u>

CITY OF ADRIAN, MICHIGAN

DIAL-A-RIDE SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2004 and 2003

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Operating revenues:		
Charges for services	\$ 62,691	\$ 61,507
Other		<u>1,190</u>
Total operating revenues	<u>62,691</u>	<u>62,697</u>
Operating expenses:		
Cost of services:		
Salaries and wages	218,420	211,602
Fringe benefits	67,809	59,349
Contracted services	18,040	18,233
Supplies and materials	32,451	30,666
Telephone	2,721	2,641
Insurance	5,215	6,451
Advertising	203	121
Maintenance	39,755	37,873
Rent	3,600	3,625
Administrative and accounting	1,500	1,500
Depreciation	<u>50,478</u>	<u>41,374</u>
Total operating expenses	<u>440,192</u>	<u>413,435</u>
Operating loss	<u>(377,501)</u>	<u>(350,738)</u>
Nonoperating revenues:		
Intergovernmental - State	162,797	168,195
Intergovernmental - Federal	<u>42,674</u>	<u>40,736</u>
Total nonoperating revenues	<u>205,471</u>	<u>208,931</u>
Loss before contributions and transfers	(170,030)	(141,807)
Transfers in	121,552	100,433
Capital contribution - State	<u>50,111</u>	<u>94,942</u>
Change in net assets	(367)	53,568
Total net assets - beginning of year	<u>251,497</u>	<u>197,929</u>
Total net assets - end of year	<u><u>\$ 251,130</u></u>	<u><u>\$ 251,497</u></u>

CITY OF ADRIAN, MICHIGAN

DIAL-A-RIDE SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2004 and 2003

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Cash flows from operating activities:		
Cash received from customers	\$ 62,691	\$ 62,697
Cash paid to suppliers	(172,441)	(156,596)
Cash paid to employees	<u>(218,420)</u>	<u>(211,602)</u>
Net cash used in operating activities	<u>(328,170)</u>	<u>(305,501)</u>
Cash flows from noncapital financing activities:		
Grant received – Federal	41,566	38,957
Grant received – State	166,770	164,658
Transfer from General Fund	<u>119,834</u>	<u>101,886</u>
Net cash provided by noncapital financing activities	<u>328,170</u>	<u>305,501</u>
Net increase (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED IN OPERATING ACTIVITIES**

Operating loss	<u>\$ (377,501)</u>	<u>\$ (350,738)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	50,478	41,374
Change in Assets and Liabilities:		
Increase (decrease) in vouchers payable	(2,052)	2,953
Increase (decrease) in due to County	<u>905</u>	<u>910</u>
Total adjustments	<u>49,331</u>	<u>45,237</u>
Net cash used in operating activities	<u>\$ (328,170)</u>	<u>\$ (305,501)</u>

CITY OF ADRIAN, MICHIGAN
AUTOMOBILE PARKING SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF NET ASSETS

June 30, 2004 and 2003

<u>ASSETS</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current assets:		
Cash and cash equivalents	\$ 1,270	\$ 11,528
Due from General Fund	<u>20,171</u>	<u> </u>
Total current assets	<u>21,441</u>	<u>11,528</u>
Noncurrent assets:		
Restricted assets:		
Bond and redemption account	<u>47,410</u>	<u>48,995</u>
Capital assets:		
Land	638,500	638,500
Land improvements	720,573	720,573
Equipment	156,033	156,033
Less: Accumulated depreciation	<u>(468,768)</u>	<u>(451,885)</u>
Net capital assets	<u>1,046,338</u>	<u>1,063,221</u>
Total noncurrent assets	<u>1,093,748</u>	<u>1,112,216</u>
Total assets	<u>\$ 1,115,189</u>	<u>\$ 1,123,744</u>

CITY OF ADRIAN, MICHIGAN
AUTOMOBILE PARKING SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF NET ASSETS

June 30, 2004 and 2003

<u>LIABILITIES AND NET ASSETS</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current liabilities:		
Vouchers payable	\$ 566	\$ 421
Accrued payroll	369	591
Due to other funds – General		3,838
General obligation bonds payable – current	<u>50,000</u>	<u>50,000</u>
Total current liabilities	50,935	54,850
Current liabilities payable from restricted assets:		
Accrued interest payable	1,149	2,292
Noncurrent liabilities:		
General obligation bonds payable	<u> </u>	<u>50,000</u>
Total liabilities	<u>52,084</u>	<u>107,142</u>
Net assets:		
Invested in capital assets, net of related debt	996,338	963,221
Restricted for debt service	46,261	46,703
Unrestricted	<u>20,506</u>	<u>6,678</u>
Total net assets	<u>\$ 1,063,105</u>	<u>\$ 1,016,602</u>

CITY OF ADRIAN, MICHIGAN
AUTOMOBILE PARKING SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS

For Fiscal Years Ended June 30, 2004 and 2003

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Operating revenues:		
Charges for services	\$ 111,815	\$ 100,554
Total operating revenues	<u>111,815</u>	<u>100,554</u>
Operating expenses:		
Cost of services:		
Salaries and wages	38,326	30,273
Fringe benefits	12,273	8,136
Overhead expense	2,747	3,786
Supplies	10,610	7,442
Contracted services	1,965	650
Insurance	407	327
Electricity	9,832	9,715
Rent	3,021	6,354
Administration	12,360	12,360
Depreciation	<u>16,883</u>	<u>17,061</u>
Total operating expenses	<u>108,424</u>	<u>96,104</u>
Operating income	<u>3,391</u>	<u>4,450</u>
Nonoperating revenues (expenses):		
Interest income	82	734
Interest expense	(4,020)	(7,441)
Bond agent expense	<u>(525)</u>	<u></u>
Total nonoperating revenues (expenses)	<u>(4,463)</u>	<u>(6,707)</u>
Loss before transfers	(1,072)	(2,257)
Transfer in	<u>47,575</u>	<u></u>
Change in net assets	46,503	(2,257)
Total net assets – beginning of year	<u>1,016,602</u>	<u>1,018,859</u>
Total net assets – end of year	<u>\$ 1,063,105</u>	<u>\$ 1,016,602</u>

CITY OF ADRIAN, MICHIGAN
AUTOMOBILE PARKING SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For Fiscal Years Ended June 30, 2004 and 2003
DECREASE IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Cash flows from operating activities:		
Cash received from customers	\$ 91,644	\$ 100,554
Cash paid to suppliers	(56,908)	(59,953)
Cash paid to employees	<u>(38,548)</u>	<u>(29,929)</u>
Net cash provided by (used in) operating activities	<u>(3,812)</u>	<u>10,672</u>
Cash flows from noncapital financing activities:		
Transfer from General Fund	<u>47,575</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Interest paid and agent fees on general obligation bonds	(5,688)	(8,574)
Principal paid on general obligation bonds	<u>(50,000)</u>	<u>(50,000)</u>
Net cash used in capital and related financing activities	<u>(55,688)</u>	<u>(58,574)</u>
Cash flows from investing activities:		
Interest	<u>82</u>	<u>734</u>
Net decrease in cash and cash equivalents	(11,843)	(47,168)
Cash and cash equivalents at beginning of year	<u>60,523</u>	<u>107,691</u>
Cash and cash equivalents at end of year	<u><u>\$ 48,680</u></u>	<u><u>\$ 60,523</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income	<u>\$ 3,391</u>	<u>\$ 4,450</u>
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	16,883	17,061
Change in Assets and Liabilities:		
(Increase) decrease in due from other funds	(20,171)	
Increase (decrease) vouchers payable	145	103
Increase (decrease) in accrued payroll	(222)	344
Increase (decrease) in due to other funds	<u>(3,838)</u>	<u>(11,286)</u>
Total adjustments	<u>(7,203)</u>	<u>6,222</u>
Net cash provided by operating activities	<u><u>\$ (3,812)</u></u>	<u><u>\$ 10,672</u></u>

CITY OF ADRIAN, MICHIGAN
STORM WATER UTILITY ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2004 and 2003

<u>ASSETS</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current assets:		
Cash and cash equivalents	\$ 22,854	\$ 30,901
Due from other funds – Local Streets	<u>29,440</u>	<u> </u>
Total current assets	<u>52,294</u>	<u>30,901</u>
Noncurrent assets:		
Restricted assets:		
Bond interest - cash	<u>5,973</u>	<u>5,973</u>
Capital assets:		
Utility systems	2,380,243	2,380,243
Improvements other than buildings	861,435	861,435
Less: Accumulated depreciation	<u>(1,136,251)</u>	<u>(1,095,220)</u>
Total capital assets	<u>2,105,427</u>	<u>2,146,458</u>
Total noncurrent assets	<u>2,111,400</u>	<u>2,152,431</u>
Total assets	<u>\$ 2,163,694</u>	<u>\$ 2,183,332</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Vouchers payable	\$ 2,734	\$ 6,373
Accrued payroll	2,158	366
Due to other funds – General	28,998	13,042
General obligation bonds payable – current	<u>95,000</u>	<u>90,000</u>
Total current liabilities	128,890	109,781
Current liability - payable from restricted asset:		
Accrued interest	5,973	5,973
Noncurrent liabilities:		
General obligation bonds payable	<u>200,000</u>	<u>295,000</u>
Total liabilities	<u>334,863</u>	<u>410,754</u>
Net assets:		
Invested in capital asset - net of related debt	1,810,427	1,761,458
Unrestricted	<u>18,404</u>	<u>11,120</u>
Total net assets	<u>\$ 1,828,831</u>	<u>\$ 1,772,578</u>

CITY OF ADRIAN, MICHIGAN
STORM WATER UTILITY ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
IN FUND NET ASSETS

For Fiscal Years Ended June 30, 2004 and 2003

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Operating revenues:		
Charges for services	\$ 263,965	\$ 252,937
Operating expenses:		
Cost of services:		
Salaries and wages	54,634	33,138
Overhead expense	15,936	8,465
Supplies	24,817	20,277
Contracted services	31,935	31,420
Rent	13,259	6,934
Administration	10,045	6,158
Depreciation	<u>41,030</u>	<u>41,030</u>
Total operating expenses	<u>191,656</u>	<u>147,422</u>
Operating income	<u>72,309</u>	<u>105,515</u>
Nonoperating revenues (expenses):		
Interest revenue	139	647
Interest expense	(15,895)	(17,937)
Bond issuance cost/pay agent fees	<u>(300)</u>	<u></u>
Total nonoperating revenues (expenses)	<u>(16,056)</u>	<u>(17,290)</u>
Change in net assets	56,253	88,225
Net assets – beginning of year	<u>1,772,578</u>	<u>1,684,353</u>
Net assets – end of year	<u>\$ 1,828,831</u>	<u>\$ 1,772,578</u>

CITY OF ADRIAN, MICHIGAN
STORM WATER UTILITY ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For Fiscal Years Ended June 30, 2004 and 2003
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Cash flows from operating activities:		
Cash received from customers	\$ 234,525	\$ 252,937
Cash paid to suppliers	(83,674)	(86,700)
Cash paid to employees	<u>(52,842)</u>	<u>(33,046)</u>
Net cash provided by operating activities	<u>98,009</u>	<u>133,191</u>
Cash flows from financing activities:		
Interest paid and agent fees on general obligation bonds	(16,195)	(19,790)
Bond principal payment	<u>(90,000)</u>	<u>(85,000)</u>
Net cash used in capital and related financing activities	<u>(106,195)</u>	<u>(104,790)</u>
Cash flows from investing activities:		
Interest	<u>139</u>	<u>647</u>
Net increase (decrease) in cash and cash equivalents	(8,047)	29,048
Cash and cash equivalents at beginning of year	<u>36,874</u>	<u>7,826</u>
Cash and cash equivalents at end of year	<u>\$ 28,827</u>	<u>\$ 36,874</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ <u>72,309</u>	\$ <u>105,515</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	41,030	41,030
Changes in Assets and Liabilities:		
(Increase) decrease in due from other funds	(29,440)	
Increase (decrease) in vouchers payable	(3,638)	(939)
Increase (decrease) in accrued liabilities	1,792	92
Increase (decrease) in due to other funds	<u>15,956</u>	<u>(12,507)</u>
Total adjustments	<u>25,700</u>	<u>27,676</u>
Net cash provided by operating activities	<u>\$ 98,009</u>	<u>\$ 133,191</u>

CITY OF ADRIAN, MICHIGAN

MAJOR ENTERPRISE FUNDS

The function of the Enterprise Funds is to record the financing, acquisition, operation and maintenance of City activities that are entirely or predominantly self-supporting from user charges.

WASTEWATER SYSTEM FUND: This fund is used to account for the acquisition, operation and maintenance of the City's wastewater system.

WATER SYSTEM FUND: This fund is used to account for the acquisition, operation and maintenance of the city's water system.

CITY OF ADRIAN, MICHIGAN
WASTEWATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2004 and 2003

ASSETS	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current assets:		
Cash and cash equivalents	\$ 414,780	\$ 774,774
Investments	2,311,523	2,462,728
Receivables:		
Accounts	75,463	97,230
Deferred assessments	68,501	68,501
Accrued interest		9,326
Due from other funds	182,753	208,433
Prepaid expense	<u>5,269</u>	<u>4,231</u>
Total current assets	<u>3,058,289</u>	<u>3,625,223</u>
Noncurrent assets:		
Restricted assets – investments and receivable:		
Bond interest and redemption	403,622	194,786
Replacement	500,000	500,000
DWRf Bond receivable	<u>217,025</u>	<u>1,757,741</u>
Total restricted assets	<u>1,120,647</u>	<u>2,452,527</u>
Capital assets:		
Land	163,164	163,164
Sewer system	26,194,452	25,356,798
Less: Accumulated depreciation	(13,080,566)	(12,472,810)
Construction in progress	<u>9,521,316</u>	<u>5,047,416</u>
Net capital assets	<u>22,798,366</u>	<u>18,094,568</u>
Total noncurrent assets	<u>23,919,013</u>	<u>20,547,095</u>
Total assets	<u>\$ 26,977,302</u>	<u>\$ 24,172,318</u>

CITY OF ADRIAN, MICHIGAN
WASTEWATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2004 and 2003

LIABILITIES	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current liabilities:		
Vouchers payable	\$ 38,309	\$ 1,066,803
Accrued payroll	1,523	19,633
Due to other funds:		
General	23,148	20,475
Water	17,563	19,412
DWRf Bonds payable – current	<u>350,000</u>	<u> </u>
Total current liabilities	<u>430,543</u>	<u>1,126,323</u>
Current liabilities – payable from restricted assets:		
Accrued interest	<u>53,622</u>	<u>-</u>
Noncurrent liabilities:		
Accrued sick and vacation	44,919	68,736
DWRf Bonds payable	<u>8,570,000</u>	<u>4,850,991</u>
Total noncurrent liabilities	<u>8,614,919</u>	<u>4,919,727</u>
Total liabilities	<u>9,099,084</u>	<u>6,046,050</u>
NET ASSETS		
Invested in capital assets, net of related debt	14,095,391	15,001,318
Restricted for debt service	403,622	194,786
Restricted for replacement	500,000	500,000
Unrestricted	<u>2,879,205</u>	<u>2,430,164</u>
Total net assets	<u>\$ 17,878,218</u>	<u>\$ 18,126,268</u>

CITY OF ADRIAN, MICHIGAN
WASTEWATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS

For Fiscal Years Ended June 30, 2004 and 2003

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Operating revenues:		
Charges for services	\$ 2,476,467	\$ 2,261,902
Miscellaneous revenue	<u>66,842</u>	<u>13,248</u>
Total operating revenues	<u>2,543,309</u>	<u>2,275,150</u>
Operating expenses:		
Cost of services:		
Wastewater treatment plant operation	1,346,282	1,254,053
Sanitary sewer expenses	132,929	122,319
Broad Street station expenses	32,245	27,006
Lift station expenses	20,519	22,340
Retention basis expenses	10,572	13,774
Administrative and overhead	600,170	572,230
Depreciation	<u>607,756</u>	<u>579,427</u>
Total operating expenses	<u>2,750,473</u>	<u>2,591,149</u>
Operating loss	<u>(207,164)</u>	<u>(315,999)</u>
Nonoperating revenues (expenses):		
Interest revenue	12,736	68,340
Interest expense	<u>(53,622)</u>	<u>(13,522)</u>
Total nonoperating revenues (expenses)	<u>(40,886)</u>	<u>54,818</u>
Change in net assets	(248,050)	(261,181)
Total net assets – beginning of year	<u>18,126,268</u>	<u>18,387,449</u>
Total net assets – end of year	<u>\$ 17,878,218</u>	<u>\$ 18,126,268</u>

CITY OF ADRIAN, MICHIGAN
WASTEWATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For Fiscal Years Ended June 30, 2004 and 2003
DECREASE IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,590,756	\$ 2,268,740
Cash paid to suppliers	(2,474,719)	(404,813)
Cash paid to employees	<u>(738,633)</u>	<u>(637,734)</u>
Net cash provided by operating activities	<u>(622,596)</u>	<u>1,226,193</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(5,181,075)	(4,692,920)
Interest expense	(130,479)	(13,522)
Bond proceeds	<u>5,609,725</u>	<u>3,093,250</u>
Net cash provided by (used in) capital and related financing activities	<u>298,171</u>	<u>(1,613,192)</u>
Cash flows from investing activities:		
Interest	22,062	75,827
Investments purchased	(5,878,222)	(6,178,624)
Investment proceeds	<u>5,820,591</u>	<u>6,129,034</u>
Net cash provided by (used in) investing activities	<u>(35,569)</u>	<u>26,237</u>
Net decrease in cash and cash equivalents	(359,994)	(360,762)
Cash and cash equivalents at beginning of year	<u>774,774</u>	<u>1,135,536</u>
Cash and cash equivalents at end of year	<u>\$ 414,780</u>	<u>\$ 774,774</u>

CITY OF ADRIAN, MICHIGAN
WASTEWATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2004 and 2003

**RECONCILIATION OF OPERATING LOSS TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES**

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Operating loss	\$ (207,164)	\$ (315,999)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	607,756	579,427
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	21,767	46,502
(Increase) decrease in due from other funds	25,680	(52,912)
(Increase) decrease in prepaids	(1,038)	(621)
Increase (decrease) in vouchers payable	(1,028,494)	950,476
Increase (decrease) in accrued payroll	(18,110)	1,010
Increase (decrease) in accrued sick and vacation	(23,817)	14,044
Increase (decrease) in due to other funds	<u>824</u>	<u>4,266</u>
Total adjustments	<u>(415,432)</u>	<u>1,542,192</u>
Net cash provided by (used in) in operating activities	<u>\$ (622,596)</u>	<u>\$ 1,226,193</u>

CITY OF ADRIAN, MICHIGAN

WATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF NET ASSETS

June 30, 2004 and 2003

ASSETS	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current assets:		
Cash and cash equivalents	\$ 1,035,893	\$ 812,202
Investments	134,528	441,534
Receivables:		
Accounts	434,567	528,530
Deferred assessments	22,629	22,629
Accrued interest		3,359
Due from other funds	17,563	19,412
Inventories	115,995	107,525
Prepaid expense	<u>7,495</u>	<u>7,174</u>
Total current assets	<u>1,768,670</u>	<u>1,942,365</u>
Noncurrent assets:		
Restricted assets – cash and investments:		
Customer deposits – cash	13,305	13,981
Bond interest and redemption – investment	255,360	253,516
Bond reserve – investment	200,000	200,000
Replacement	100,000	100,000
DWRF Bond receivable	<u></u>	<u>977,519</u>
Total restricted assets	<u>568,665</u>	<u>1,545,016</u>
Capital assets:		
Land	102,928	102,928
Water system	14,919,018	14,800,436
Less: Accumulated depreciation	(6,612,346)	(6,304,274)
Construction in progress	<u>6,661,664</u>	<u>3,289,735</u>
Net capital assets	<u>15,071,264</u>	<u>11,888,825</u>
Total noncurrent assets	<u>15,639,929</u>	<u>13,433,841</u>
Total assets	<u>\$ 17,408,599</u>	<u>\$ 15,376,206</u>

CITY OF ADRIAN, MICHIGAN
WATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2004 and 2003

LIABILITIES	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current liabilities:		
Vouchers payable	\$ 45,706	\$ 866,545
Accrued payroll	6,166	19,695
Due to other funds:		
General	36,612	33,651
Wastewater System	182,753	208,433
Revenue bonds payable – current		250,000
DWRP Bonds payable – current	<u>220,000</u>	
Total current liabilities	<u>491,237</u>	<u>1,378,324</u>
Current liabilities - payable from restricted assets:		
Customer deposits payable	13,305	13,981
Accrued interest	<u>35,360</u>	<u>3,516</u>
Total current liabilities payable from restricted assets	<u>48,665</u>	<u>17,497</u>
Noncurrent liabilities:		
Accrued sick and vacation	65,673	78,738
DWRP Bonds payable	<u>5,445,000</u>	<u>2,946,566</u>
Total noncurrent liabilities	<u>5,510,673</u>	<u>3,025,304</u>
Total liabilities	<u>6,050,575</u>	<u>4,421,125</u>
NET ASSETS		
Invested in capital assets, net of related debt	9,406,264	9,669,778
Restricted for debt service	455,360	453,516
Restricted for replacement	100,000	100,000
Unrestricted	<u>1,396,400</u>	<u>731,787</u>
Total net assets	<u>\$ 11,358,024</u>	<u>\$ 10,955,081</u>

CITY OF ADRIAN, MICHIGAN
WATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS

For Fiscal Years Ended June 30, 2004 and 2003

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Operating revenues:		
Charges for services	\$ 2,510,828	\$ 2,472,963
Miscellaneous revenues	<u>262,793</u>	<u>264,828</u>
Total operating revenues	<u>2,773,621</u>	<u>2,737,791</u>
Operating expenses:		
Cost of services:		
Merchandise	27,009	22,903
Taps and service	171	12,371
Purification and pumping	838,661	1,234,325
Transmission and distribution	401,033	351,116
Administration and overhead	826,590	742,931
Depreciation	<u>308,072</u>	<u>306,474</u>
Total operating expenses	<u>2,401,536</u>	<u>2,670,120</u>
Operating income	<u>372,085</u>	<u>67,671</u>
Nonoperating revenues (expenses):		
Interest revenue	55,203	24,294
Interest expense	(23,845)	(27,124)
Bond agent expense	<u>(500)</u>	<u>(250)</u>
Total nonoperating revenues (expenses)	<u>30,858</u>	<u>(3,080)</u>
Net income before contributions and transfers	402,943	64,591
Capital contribution	<u>-</u>	<u>150,341</u>
Change in net assets	402,943	214,932
Total net assets – beginning of year	<u>10,955,081</u>	<u>10,740,149</u>
Total net assets – end of year	<u>\$ 11,358,024</u>	<u>\$ 10,955,081</u>

CITY OF ADRIAN, MICHIGAN
WATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For Fiscal Years Ended June 30, 2004 and 2003
INCREASE IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,868,757	\$ 2,670,484
Cash paid to suppliers	(1,992,236)	(648,046)
Cash paid to employees	<u>(980,171)</u>	<u>(887,796)</u>
Net cash provided by (used in) operating activities	<u>(103,650)</u>	<u>1,134,642</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(3,385,850)	(2,961,083)
Principal paid on revenue bonds	(250,000)	(225,000)
Interest paid and agent fees on revenue bonds	(97,162)	(30,749)
DWRF Bond proceeds	3,695,953	1,969,047
Contributed capital	<u> </u>	<u>150,341</u>
Net cash used in capital and related financing activities	<u>(37,059)</u>	<u>(1,097,444)</u>
Cash flows from investing activities:		
Purchase of investments	(2,511,211)	(1,967,137)
Interest	58,562	25,205
Proceeds on investments	<u>2,816,373</u>	<u>2,235,472</u>
Net cash provided by investing activities	<u>363,724</u>	<u>293,540</u>
Net increase in cash and cash equivalents	223,015	330,738
Cash and cash equivalents at beginning of year	<u>826,183</u>	<u>495,445</u>
Cash and cash equivalents at end of year	<u>\$ 1,049,198</u>	<u>\$ 826,183</u>

CITY OF ADRIAN, MICHIGAN

WATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2004 and 2003

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Operating income	\$ <u>372,085</u>	\$ <u>67,671</u>
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	308,072	306,474
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	93,963	(66,876)
(Increase) decrease in due from other funds	1,849	(1,016)
(Increase) decrease in inventories	(8,470)	14,638
(Increase) decrease in prepaid expense	(321)	(1,555)
Increase (decrease) in vouchers payable	(820,839)	759,843
Increase (decrease) in accrued payroll	(13,529)	(6,359)
Increase (decrease) in accrued sick and vacation	(13,065)	2,813
Increase (decrease) in due to other funds	(22,719)	58,424
Increase (decrease) in customer deposits	<u>(676)</u>	<u>585</u>
Total adjustments	<u>(475,735)</u>	<u>1,066,971</u>
Net cash provided by (used in) operating activities	\$ <u>(103,650)</u>	\$ <u>1,134,642</u>

CITY OF ADRIAN, MICHIGAN

FIDUCIARY FUNDS – AGENCY FUNDS

Agency funds are used to account for assets held by the City as an agent for other entities or individuals.

PAYROLL DEDUCTION FUND: This fund handles the payment of payroll deductions to third parties.

PROPERTY TAX FUND: This fund accounts for the collection and payment of property taxes billed and collected by the City on behalf of the County, two school districts and an intermediate school district.

TRUST AND AGENCY FUND: This fund accounts for monies received from various sources and hold by the City in a custodial or agent capacity.

CITY OF ADRIAN, MICHIGAN

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
ALL AGENCY FUNDS**

For Fiscal Year Ended June 30, 2004

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
PAYROLL DEDUCTION FUND				
<u>ASSETS</u>				
Cash	<u>\$ 17,350</u>	<u>\$ 677,383</u>	<u>\$ 684,125</u>	<u>\$ 10,608</u>
<u>LIABILITIES</u>				
Vouchers payable	<u>\$ 17,350</u>	<u>\$ 677,383</u>	<u>\$ 684,125</u>	<u>\$ 10,608</u>
PROPERTY TAX FUND				
<u>ASSETS</u>				
Cash	<u>\$128,805</u>	<u>\$ 73,065</u>	<u>\$ 57,557</u>	<u>\$144,313</u>
<u>LIABILITIES</u>				
Due to other taxing units	<u>\$128,805</u>	<u>\$ 73,065</u>	<u>\$ 57,557</u>	<u>\$144,313</u>
TRUST & AGENCY FUND				
<u>ASSETS</u>				
Cash	<u>\$216,006</u>	<u>\$ 284,512</u>	<u>\$ 228,632</u>	<u>\$271,886</u>
<u>LIABILITIES</u>				
Restricted deposits	<u>\$216,006</u>	<u>\$ 284,512</u>	<u>\$ 228,632</u>	<u>\$271,886</u>
TOTAL - ALL AGENCY FUNDS				
<u>ASSETS</u>				
Cash	<u>\$362,161</u>	<u>\$ 1,034,960</u>	<u>\$ 970,314</u>	<u>\$426,807</u>
<u>LIABILITIES</u>				
Vouchers payable	<u>\$ 17,350</u>	<u>\$ 677,383</u>	<u>\$ 684,125</u>	<u>\$ 10,608</u>
Due to other taxing units	<u>128,805</u>	<u>73,065</u>	<u>57,557</u>	<u>144,313</u>
Restricted deposits	<u>216,006</u>	<u>284,512</u>	<u>228,632</u>	<u>271,886</u>
Total liabilities	<u>\$362,161</u>	<u>\$ 1,034,960</u>	<u>\$ 970,314</u>	<u>\$426,807</u>

CITY OF ADRIAN, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY - SPECIAL REVENUE FUND
DISCRETELY PRESENTED COMPONENT UNIT

COMPARATIVE BALANCE SHEETS

JUNE 30, 2004 AND 2003

<u>ASSETS</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Cash and cash equivalents	\$ 570,606	\$ 491,773
Investments	<u>83,653</u>	<u>80,670</u>
Total assets	<u><u>\$ 654,259</u></u>	<u><u>\$ 572,443</u></u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Vouchers payable	\$ 5,625	\$ 2,978
Due to primary government	816	323
Accrued payroll	<u> </u>	<u>704</u>
Total liabilities	<u><u>6,441</u></u>	<u><u>4,005</u></u>
Fund balance:		
Reserved for:		
Downtown Development Projects	80,670	80,670
Encumbrances	39,192	4,265
Unreserved:		
Undesignated	<u>527,956</u>	<u>483,503</u>
Total fund balance	<u><u>647,818</u></u>	<u><u>568,438</u></u>
Total liabilities and fund balance	<u><u>\$ 654,259</u></u>	<u><u>\$ 572,443</u></u>

CITY OF ADRIAN, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY - SPECIAL REVENUE FUND
DISCRETELY PRESENTED COMPONENT UNIT

COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE

FOR FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Revenues:		
Property taxes	\$ 317,575	\$ 239,580
Interest	4,820	7,889
Other	<u>221</u>	<u></u>
Total revenues	322,616	247,469
Expenditures:		
Current:		
Other services	<u>112,956</u>	<u>133,481</u>
Excess of revenues over expenditures	209,660	113,988
Other financing uses:		
Transfer to DDA Debt Service	<u>(130,280)</u>	<u>(115,800)</u>
Net change in fund balance	79,380	(1,812)
Fund balance – beginning of year	<u>568,438</u>	<u>570,250</u>
Fund balance – end of year	<u>\$ 647,818</u>	<u>\$ 568,438</u>

CITY OF ADRIAN, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY - DEBT SERVICE FUND
DISCRETELY PRESENTED COMPONENT UNIT

COMPARATIVE BALANCE SHEETS

JUNE 30, 2004 AND 2003

	<u>ASSETS</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Cash		\$ 16,664	\$ 19,467
Total assets		<u>\$ 16,664</u>	<u>\$ 19,467</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Accrued interest payable		\$ 13,255	\$ 16,000
Fund balance:			
Reserved for debt retirement		<u>3,409</u>	<u>3,467</u>
Total liabilities and fund balance		<u>\$ 16,664</u>	<u>\$ 19,467</u>

CITY OF ADRIAN, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY - DEBT SERVICE FUND

DISCRETELY PRESENTED COMPONENT UNIT

COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN

FUND BALANCE

FOR FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Revenues:		
Interest	\$ 342	\$ 326
Total revenues	<u>342</u>	<u>326</u>
Expenditures:		
Debt Service:		
Principal retirement	85,000	65,000
Interest and fiscal charges	<u>45,680</u>	<u>51,216</u>
Total expenditures	<u>130,680</u>	<u>116,216</u>
Deficiency of revenues over expenditures	(130,338)	(115,890)
Other financing sources:		
Transfers from DDA - Special Revenue	<u>130,280</u>	<u>115,800</u>
Net change in fund balance	(58)	(90)
Fund balance - beginning of year	<u>3,467</u>	<u>3,557</u>
Fund balance - end of year	<u>\$ 3,409</u>	<u>\$ 3,467</u>

CITY OF ADRIAN, MICHIGAN
LOCAL DEVELOPMENT FINANCE AUTHORITY - DEBT SERVICE FUND
DISCRETELY PRESENTED COMPONENT UNIT

COMPARATIVE BALANCE SHEETS

JUNE 30, 2004 AND 2003

	<u>ASSETS</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Cash		<u>\$ 46,916</u>	<u>\$ 46,688</u>
Total assets		<u>\$ 49,916</u>	<u>\$ 46,688</u>
	<u>FUND BALANCE</u>		
Reserved for debt retirement		<u>\$ 46,916</u>	<u>\$ 46,688</u>
Total fund balance		<u>\$ 49,916</u>	<u>\$ 46,688</u>

CITY OF ADRIAN, MICHIGAN

LOCAL DEVELOPMENT FINANCE AUTHORITY - DEBT SERVICE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE**

FOR FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Revenues:		
Property taxes	\$ 92,126	\$ 103,947
Interest	<u>228</u>	<u>288</u>
Total revenues	<u>92,354</u>	<u>104,235</u>
Expenditures:		
Debt Service:		
Principal retirement – City	7,500	9,300
Interest – City	3,000	1,800
Interest – Jacuzzi Brands	<u>81,626</u>	<u>84,116</u>
Total expenditures	<u>92,126</u>	<u>95,216</u>
Net change in fund balance	228	9,019
Fund balance - beginning of year	<u>46,688</u>	<u>37,669</u>
Fund balance - end of year	<u>\$ 46,916</u>	<u>\$ 46,688</u>

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2004

<u>PRIMARY GOVERNMENT</u>	<u>Date Of Issue</u>	<u>Amount Of Issue</u>	<u>Interest Rate</u>
Water System Revenue Bonds	09/01/91	\$ 950,000	5.625%
Automobile Parking Bonds	09/01/89	\$ 500,000	6.85% 6.90
Storm Water Utility	01/01/97	\$ 800,000	4.50% 4.60 4.70 4.80
Parks & Recreation	08/01/00	\$ 1,000,000	5.75%

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2004

<u>Date of Maturity</u>	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>Annual Interest Payable</u>
10/01/2003	\$ 250,000	\$ _____	\$ 7,031
	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ 7,031</u>
09/01/2003	\$ 50,000	\$ _____	\$ 5,162
09/01/2004	<u>50,000</u>	<u>50,000</u>	<u>1,725</u>
	<u>\$ 100,000</u>	<u>\$ 50,000</u>	<u>\$ 6,887</u>
09/01/2003	\$ 90,000	\$ _____	\$ 15,895
09/01/2004	95,000	95,000	11,685
09/01/2005	100,000	100,000	7,150
09/01/2006	<u>100,000</u>	<u>100,000</u>	<u>2,400</u>
	<u>\$ 385,000</u>	<u>\$ 295,000</u>	<u>\$ 37,130</u>
08/01/03 – 02/01/04	\$ 88,109	\$ _____	\$ 44,773
08/01/04 – 02/01/05	93,247	93,247	39,635
08/01/05 – 02/01/06	98,686	98,686	34,196
08/01/06 – 02/01/07	104,442	104,442	28,440
08/01/07 – 02/01/08	110,534	110,534	22,349
08/01/08 – 02/01/09	116,981	116,981	15,902
08/01/09 – 02/01/10	123,808	123,808	9,078
08/01/10	<u>64,584</u>	<u>64,584</u>	<u>1,857</u>
	<u>\$ 800,391</u>	<u>\$ 712,282</u>	<u>\$ 196,230</u>

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CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2004

<u>PRIMARY GOVERNMENT</u>	<u>Date Of Issue</u>	<u>Amount Of Issue</u>	<u>Interest Rate</u>
Parks & Recreation	05/23/03	\$ 1,200,000	3.64%
Wastewater System Revenue Bonds (DWRP Loan)	09/26/02	Not to exceed \$ 8,920,000	2.50%

See independent auditors' report.

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2004

<u>Date of Maturity</u>	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>Annual Interest Payable</u>
11/23/03 – 05/23/04	\$ 101,474	\$	\$ 42,765
11/23/04 – 05/23/05	105,201	105,201	39,038
11/23/05 – 05/23/06	109,065	109,065	35,173
11/23/06 – 05/23/07	113,072	113,072	31,167
11/23/07 – 05/23/08	117,225	117,225	27,014
11/23/08 – 05/23/09	121,531	121,531	22,708
11/23/09 – 05/23/10	125,995	125,995	18,244
11/23/10 – 05/23/11	130,623	130,623	13,618
11/23/11 – 05/23/12	135,420	135,420	8,818
11/23/12 – 05/23/13	<u>140,394</u>	<u>140,394</u>	<u>3,844</u>
	<u>\$ 1,200,000</u>	<u>\$ 1,098,526</u>	<u>\$ 242,389</u>
10/01/04 – 04/01/05		\$ 350,000	\$ 214,370
10/01/05 – 04/01/06		355,000	209,812
10/01/06 – 04/01/07		365,000	200,812
10/01/07 – 04/01/08		375,000	191,562
10/01/08 – 04/01/09		385,000	182,062
10/01/09 – 04/01/10		395,000	172,312
10/01/10 – 04/01/11		405,000	162,312
10/01/11 – 04/01/12		415,000	152,063
10/01/12 – 04/01/13		425,000	141,563
10/01/13 – 04/01/14		435,000	130,813
10/01/14 – 04/01/15		445,000	119,812
10/01/15 – 04/01/16		460,000	108,500
10/01/16 – 04/01/17		470,000	96,875
10/01/17 – 04/01/18		480,000	85,000
10/01/18 – 04/01/19		495,000	72,813
10/01/19 – 04/01/20		505,000	60,313
10/01/20 – 04/01/21		520,000	47,500
10/01/21 – 04/01/22		535,000	34,313
10/01/22 – 04/01/23		545,000	20,813
10/01/2023		<u>560,000</u>	<u>7,000</u>
Loan balance at 6/30/03			
	<u>\$ 2,946,566</u>	<u>8,920,000</u>	<u>2,410,620</u>

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CITY OF ADRIAN, MICHIGAN
SCHEDULE OF INDEBTEDNESS
June 30, 2004

<u>PRIMARY GOVERNMENT</u>	<u>Date Of Issue</u>	<u>Amount Of Issue</u>	<u>Interest Rate</u>
Water Supply System Revenue Bonds (DWRf Loan)	09/26/02	\$ 5,665,000	2.50%

Accumulated vacation and sick pay

TOTAL - PRIMARY GOVERNMENT

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2004

<u>Date of Maturity</u>	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>Annual Interest Payable</u>
10/01/04 – 04/01/05	\$	\$ 220,000	\$ 138,783
10/01/05 – 04/01/06		225,000	133,312
10/01/06 – 04/01/07		235,000	127,563
10/01/07 – 04/01/08		240,000	121,625
10/01/08 – 04/01/09		245,000	115,562
10/01/09 – 04/01/10		250,000	109,375
10/01/10 – 04/01/11		255,000	103,063
10/01/11 – 04/01/12		265,000	96,562
10/01/12 – 04/01/13		270,000	89,875
10/01/13 – 04/01/14		275,000	83,063
10/01/14 – 04/01/15		285,000	76,062
10/01/15 – 04/01/16		290,000	68,875
10/01/16 – 04/01/17		300,000	61,500
10/01/17 – 04/01/18		305,000	53,938
10/01/18 – 04/01/19		315,000	46,187
10/01/19 – 04/01/20		320,000	38,250
10/01/20 – 04/01/21		330,000	30,125
10/01/21 – 04/01/22		340,000	21,750
10/01/22 – 04/01/23		345,000	13,188
10/01/2023		355,000	4,437
Loan balance at 6/30/03			
	<u>\$ 4,850,991</u>	<u>\$ 5,665,000</u>	<u>\$ 1,533,095</u>
	<u>\$ 367,701</u>	<u>\$ 309,543</u>	<u>\$ -</u>
	<u>\$ 10,900,649</u>	<u>\$ 17,050,351</u>	<u>\$ -</u>

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2004

<u>Date of Maturity</u>	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>Annual Interest Payable</u>
03/01/2004	\$ 85,000	\$	\$ 48,000
03/01/2005	90,000	90,000	42,560
03/01/2006	85,000	85,000	36,800
03/01/2007	85,000	85,000	31,360
03/01/2008	85,000	85,000	25,920
03/01/2009	80,000	80,000	20,480
03/01/2010	80,000	80,000	15,360
03/01/2011	80,000	80,000	10,240
03/01/2012	<u>80,000</u>	<u>80,000</u>	<u>5,120</u>
	<u>\$ 750,000</u>	<u>\$ 665,000</u>	<u>\$ 235,840</u>
			(Payments dependent on tax revenues available.)
	<u>\$ 764,100</u>	<u>\$ 764,100</u>	
	<u>\$ 1,514,100</u>	<u>\$ 1,429,100</u>	

CITY OF ADRIAN, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity's Identifying Number</u>	<u>Program or Award Amount</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation				
USC Section 5311 Operating Assistance	20.509	MI-18-X033	Formula	\$ 10,320
USC Section 5311 Operating Assistance	20.509	2002-0002/Z5	Formula	32,353
USC Section 5309 Capital	20.500	2001-0527	334,052	1,397
USC Section 5309 Capital	20.500	2002-0002/Z2	39,532	38,691
 U.S. Department of Housing and Urban Development				
Home Investment Partnerships Program	14.239	MI-2001-0486	555,500	40,129
 U.S. Department of Justice				
Local Law Enforcement Block Grant				
Fiscal Year 2002	16.592	2002-LB-BX-1659	19,714	2,640
Fiscal Year 2003	16.592	2003-LB-BX-0040	18,811	10,548
 U.S. Environmental Protection				
Office of Water				
Drinking Water State Revolving Loan				
Water System	66.468	5201-01	4,720,644	2,265,271
Wastewater System	66.468	5201-01	7,433,036	<u>3,390,705</u>
Total Expenditures of Federal Awards				<u>\$ 5,792,054</u>

See independent auditors' report.

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CITY OF ADRIAN, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2004

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified		
Internal control over financial reporting:			
* Material weakness(es) identified?	___	YES	___X NO
* Reportable condition(s) identified that are not considered to be material weaknesses?	___	YES	___X NONE REPORTED
Noncompliance material to financial statements noted?	___	YES	___X NO

FEDERAL AWARDS

Internal control over major programs:			
* Material weakness(es) identified?	___	YES	___X NO
* Reportable condition(s) identified that are not considered to be material weaknesses?	___	YES	___X NONE REPORTED
Type of auditors' report issued on compliance for major program:	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	___	YES	___X NO

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2004

SECTION I - SUMMARY OF AUDITORS' RESULTS

IDENTIFICATION OF MAJOR PROGRAM:

<u>CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Name of Federal Program</u>
66.468	5201-01 (Water System)	Drinking Water State Revolving Loan
66.468	5201-01 (Wastewater System)	Drinking Water State Revolving Loan

Dollar Threshold used to distinguish
between type A and type B programs:

\$ 500,000

Auditee qualified as low-risk auditee?

 X YES NO

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

CITY OF ADRIAN, MICHIGAN

HOME INVESTMENT PARTNERSHIPS PROGRAM GRANT M-2001-0486

For the Grant Period October 1, 2001 to June 30, 2004

	<u>Approved Budget</u>	<u>Actual Costs</u>	<u>Under (Over)</u>
Federal Funds:			
Rental rehabilitation	\$ 500,000	\$ 484,716	\$ 15,284
Administration	<u>55,500</u>	<u>54,007</u>	<u>1,493</u>
Subtotal	555,500	538,723	16,777
Other funds/sources:			
City loans/owner		<u>227,356</u>	
Total		<u>\$ 766,079</u>	

See independent auditors' report.

EXHIBIT B-1

CITY OF ADRIAN
NET ASSETS BY COMPONENT
LAST TWO FISCAL YEARS
(accrual basis of accounting)

	FISCAL YEAR	
	2002-03	2003-04
Governmental Activities		
Invested in Capital Assets, Net of Related Debt	\$24,050,841	\$23,761,251
Restricted	4,711,401	4,747,830
Unrestricted	7,018,815	6,856,377
Total Governmental Activities Net Assets	<u>\$35,781,057</u>	<u>\$35,365,458</u>
Business-type Activities		
Invested in Capital Assets, Net of Related Debt	\$27,647,272	\$26,559,550
Restricted	1,295,005	1,505,243
Unrestricted	3,732,120	4,894,449
Total Business-type Activities Net Assets	<u>\$32,674,397</u>	<u>\$32,959,242</u>
Primary Government		
Invested in Capital Assets, Net of Related Debt	\$51,698,113	\$50,320,801
Restricted	6,006,406	6,253,073
Unrestricted	10,750,935	11,750,826
Total Primary Government Net Assets	<u>\$68,455,454</u>	<u>\$68,324,700</u>

CITY OF ADRIAN
CHANGES IN NET ASSETS
LAST TWO FISCAL YEARS
(accrual basis of accounting)

EXHIBIT B-2

	FISCAL YEAR	
	2002-03	2003-04
EXPENSES		
Governmental Activities:		
General Government	\$1,807,739	\$1,684,439
Public Safety	4,397,169	4,601,589
Public Works	920,125	1,076,086
Culture and Recreation	2,085,016	1,915,082
Other Services	1,300,251	1,985,445
Community & Economic Development	1,143,654	619,075
Highways, Streets and Bridges	2,118,957	2,212,509
Interest on Long-Term Debt	87,538	78,673
Total Governmental Activities Expenses	<u>\$13,860,449</u>	<u>\$14,172,898</u>
Business-type Activities:		
Wastewater System	\$2,604,671	\$2,804,095
Water System	2,697,494	2,425,881
Capital Projects Revolving Fund		
Dial-A-Ride System	413,435	440,192
Automobile Parking System	103,545	112,969
Storm Water Utility	165,359	207,851
Total Business-type Activities Expenses	<u>\$5,984,504</u>	<u>\$5,990,988</u>
Total Primary Government Expenses	<u>\$19,844,953</u>	<u>\$20,163,886</u>
PROGRAM REVENUES (Incl. Grants & Contributions)		
Governmental Activities:		
General Government	\$177,973	\$395,718
Public Safety	633,870	352,914
Public Works	1,786	1,877
Culture and Recreation	849,317	1,154,198
Other Services	907,323	893,914
Community & Economic Development	1,252,159	592,145
Highways, Streets and Bridges	513,438	411,574
Total Governmental Activities Program Revenues	<u>\$4,335,866</u>	<u>\$3,802,340</u>

EXHIBIT B-2

CITY OF ADRIAN CHANGES IN NET ASSETS LAST TWO FISCAL YEARS (accrual basis of accounting)

	FISCAL YEAR	
	2002-03	2003-04
EXPENSES		
Business-type Activities:		
Wastewater System	\$2,275,150	\$2,543,309
Water System	2,888,132	2,773,621
Dial-A-Ride System	366,570	318,273
Automobile Parking System	100,554	111,815
Storm Water Utility	252,937	263,965
Total Business-type Activities Program Revenues	<u>\$5,883,343</u>	<u>\$6,010,983</u>
Total Primary Government Program Revenues	<u>\$10,219,209</u>	<u>\$9,813,323</u>

NET (EXPENSES)/REVENUE		
Governmental Activities	(\$9,524,583)	(\$10,370,558)
Business-type Activities	(101,161)	19,995
Total Primary Government Net Expense	<u>(\$9,625,744)</u>	<u>(\$10,350,563)</u>

GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS

Governmental Activities:		
Property Taxes	\$5,914,288	\$6,041,046
Sales Tax	2,621,990	2,551,255
Motor Vehicle Fuel Tax	1,227,987	1,337,898
Grants and Contributions (not restricted to specific programs)	660,115	11,008
Unrestricted Investment Earnings	248,534	170,879
Transfers	(100,433)	(157,127)
Total Governmental Activities	<u>\$10,572,481</u>	<u>\$9,954,959</u>
Business-type Activities:		
Unrestricted Investment Earnings	\$118,529	\$95,723
Transfers	100,433	169,127
Total Business-type Activities	<u>\$218,962</u>	<u>\$264,850</u>
Total Primary Government	<u>\$10,791,443</u>	<u>\$10,219,809</u>
CHANGE IN NET ASSETS		
Governmental Activities	\$1,047,898	(\$415,599)
Business-type Activities	117,801	284,845
Total Primary Government	<u>\$1,165,699</u>	<u>(\$130,754)</u>

CITY OF ADRIAN
FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	FISCAL YEAR									
	FY1994-95	FY1995-96	FY1996-97	FY1997-98	FY1998-99	FY1999-2000	FY2000-01	FY2001-02	FY2002-03	FY2003-04
General Fund										
Reserved	\$167,861	\$155,555	\$143,993	\$133,104	\$107,722	\$146,824	\$150,254	\$151,423	\$1,880,375	\$927,493
Unreserved	2,780,022	3,231,874	3,614,763	4,450,879	5,273,590	5,746,147	6,647,473	7,051,521	5,588,179	6,309,600
Total General Fund	\$2,947,883	\$3,387,429	\$3,758,756	\$4,583,983	\$5,381,312	\$5,892,971	\$6,797,727	\$7,202,944	\$7,468,554	\$7,237,093
All Other Governmental Funds										
Reserved	\$787,819	\$675,284	\$640,963	\$553,323	\$465,722	\$410,381	\$438,442	\$434,369	\$1,856,968	\$2,008,395
Unreserved, Reported in:										
Special Revenue Funds	\$1,419,876	\$1,764,238	\$2,046,427	\$2,182,189	\$2,574,813	\$2,815,685	\$2,293,233	\$2,430,783	\$2,854,433	\$2,739,435
Capital Projects Funds	0	0	0	0	0	0	0	0	0	0
Debt Service Funds	0	0	0	0	0	0	0	0	0	0
Total All Other Governmental Funds	\$2,207,695	\$2,439,522	\$2,687,390	\$2,735,512	\$3,040,535	\$3,226,066	\$2,731,675	\$2,865,152	\$4,711,401	\$4,747,830
Total Governmental Funds	\$5,155,578	\$5,826,951	\$6,446,146	\$7,319,495	\$8,421,847	\$9,119,037	\$9,529,402	\$10,068,096	\$12,179,955	\$11,984,923

CITY OF ADRIAN
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	FISCAL YEAR									
	FY1994-95	FY1995-96	FY1996-97	FY1997-98	FY1998-99	FY1999-2000	FY2000-01	FY2001-02	FY2002-03	FY2003-04
REVENUES:										
Taxes	\$4,119,231	\$4,140,528	\$4,708,107	\$5,097,850	\$5,335,941	\$5,432,018	\$5,549,836	\$5,666,051	\$5,843,118	\$5,964,834
Other Tax Related Revenue	60,774	76,414	56,763	87,496	67,808	103,369	63,917	57,364	70,670	74,212
Licenses & Permits	178,087	231,076	169,659	262,312	152,262	155,934	173,988	178,051	280,389	184,207
Intergovernmental - Federal	751,454	1,175,411	62,222	58,074	138,077	230,836	731,182	519,158	800,346	89,145
Intergovernmental - State	3,168,970	3,398,963	3,386,075	3,770,900	3,932,824	4,094,996	4,316,144	4,213,929	4,160,844	3,988,935
Charges for Services	71,286	68,801	64,465	58,763	71,887	62,870	67,454	64,858	66,458	65,345
Use and Admission Charges	259,464	282,608	292,384	326,043	300,442	307,619	295,690	321,521	301,299	314,117
Fines and Fees	235,299	264,007	245,704	262,887	286,368	287,544	304,369	291,757	275,172	326,021
Investment Earnings	270,662	332,202	345,717	403,636	439,577	490,747	613,782	416,449	286,010	170,879
Fee Trust - for beautification purposes	477,515	286,673	465,857	1,169,173	638,527	377,319	884,164	642,379	1,415,214	1,282,212
Other	401,963	770,188	754,117	1,324,225	694,931	798,058	607,408	1,196,707	1,262,351	1,322,348
Special Assessments	0	0	0	0	0	0	0	207,843	246,409	130,170
Total Revenues	\$9,994,705	\$11,026,871	\$10,551,070	\$12,821,359	\$12,038,644	\$12,341,310	\$13,607,934	\$13,776,067	\$15,008,280	\$13,912,425
EXPENDITURES:										
General Government	\$1,155,289	\$1,223,203	\$1,361,604	\$1,350,878	\$1,455,220	\$1,353,112	\$1,437,634	\$1,505,288	\$1,822,635	\$1,772,172
Public Safety	3,248,430	3,426,060	3,371,089	3,462,670	3,947,172	4,333,602	4,026,042	4,253,144	4,533,808	4,544,000
Public Works	1,028,372	941,376	921,521	1,049,060	888,753	880,541	899,738	1,110,080	904,533	912,372
Culture & Recreation	1,421,394	1,490,389	1,772,708	1,756,115	1,688,061	1,794,139	1,979,850	2,114,545	2,232,404	2,272,317
Other Services	1,117,687	1,923,722	1,019,940	1,797,897	1,220,051	1,256,400	2,714,927	2,066,253	2,782,935	1,412,504
Community & Economic Development	0	0	0	0	0	0	0	0	1,424,600	615,400
Highways, Streets and Bridges	1,263,199	1,182,984	1,319,745	1,772,451	1,506,421	1,817,510	1,831,498	1,992,544	1,226,250	2,144,444
Debt Service										
Principal Retirement	100,000	100,000	100,000	150,000	184,423	150,000	187,691	78,665	83,253	189,583
Interest and Fiscal Charges	63,375	56,500	49,375	40,200	29,602	17,700	66,389	54,217	49,629	87,538
Total Expenditures	\$9,397,746	\$10,344,234	\$9,915,982	\$11,379,271	\$10,919,703	\$11,603,004	\$13,143,769	\$13,174,736	\$15,060,047	\$13,950,330
Excess of Revenues over/(under) Expenditures	\$596,959	\$682,637	\$635,088	\$1,442,088	\$1,118,941	\$738,306	\$464,165	\$601,331	(\$51,767)	(\$37,905)
Other Financing Sources (Uses):										
Transfers In	\$565,803	\$441,227	\$740,457	\$1,486,734	\$1,055,232	\$755,861	\$1,371,955	\$1,163,016	\$1,888,272	\$2,364,135
Transfers Out	(707,011)	(448,668)	(745,267)	(1,499,863)	(1,074,956)	(793,557)	(1,422,200)	(1,222,745)	(1,988,705)	(2,521,262)
Loan Proceeds	0	1,200,000	0	0	0	0	0	0	1,200,000	0
Total Other Financing Sources (Uses)	(\$141,208)	\$1,192,559	(\$4,810)	(\$13,129)	(\$19,724)	(\$37,696)	(\$50,245)	(\$59,729)	\$1,099,567	(\$157,127)
NET CHANGES IN FUND BALANCES	\$455,751	\$1,875,196	\$630,278	\$1,428,959	\$1,099,217	\$700,610	\$413,920	\$541,602	\$1,047,800	(\$195,032)
Debt Service as a Percentage of Non-Capital Expenditures	2.0%	1.7%	1.7%	2.0%	2.3%	1.7%	2.2%	1.2%	1.0%	2.3%

EXHIBIT B-5

CITY OF ADRIAN
PROGRAM REVENUES BY FUNCTION/PROGRAM
LAST TWO FISCAL YEARS
(accrual basis of accounting)

	FISCAL YEAR	
	2002-03	2003-04
Function/Program		
Governmental Activities:		
General Government	\$177,973	\$395,718
Public Safety	633,870	352,914
Public Works	1,786	1,877
Culture and Recreation	849,317	1,154,198
Other Services	907,323	893,914
Community & Economic Development	1,252,159	592,145
Highways, Streets and Bridges	513,438	411,574
Interest on Long-Term Debt	0	0
Total Governmental Activities	\$4,335,866	\$3,802,340
Business-type Activities:		
Wastewater System	\$2,275,150	\$2,543,309
Water System	2,888,132	2,773,621
Dial-A-Ride System	366,570	318,273
Automobile Parking System	100,554	111,815
Storm Water Utility	252,937	263,965
Total Business-type Activities	\$5,883,343	\$6,010,983
Total Primary Government	\$10,219,209	\$9,813,323

EXHIBIT B-6

CITY OF ADRIAN
TAX REVENUES BY SOURCE - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
modified accrual basis of accounting)

FISCAL YEAR	PROPERTY TAXES	SALES TAX	MOTOR VEH. FUEL TAX	OTHER	TOTAL
1994-95	\$4,119,231	\$2,207,865	\$961,105	\$60,774	\$7,348,975
1995-96	4,140,528	2,304,868	1,094,095	76,414	\$7,615,905
1996-97	4,708,107	2,401,859	984,216	56,763	\$8,150,945
1997-98	5,097,850	2,573,956	1,196,944	87,496	\$8,956,246
1998-99	5,335,941	2,697,145	1,235,679	67,808	\$9,336,573
1999-00	5,432,018	2,827,815	1,267,181	103,369	\$9,630,383
2000-01	5,549,836	3,010,144	1,306,000	63,917	\$9,929,897
2001-02	5,666,051	2,944,150	1,269,779	57,364	\$9,937,344
2002-03	5,843,118	2,621,990	1,227,987	70,670	\$9,763,765
2003-04	5,964,834	2,551,255	1,337,898	74,212	\$9,928,199
Change					
2003-04 over/(under) 1994-95					
Amount	\$1,845,603	\$343,390	\$376,793	\$13,438	\$2,579,224
Percent	44.8%	15.6%	39.2%	22.1%	35.1%
Change					
2003-04 over/(under) 2002-03					
Amount	\$121,716	(\$70,735)	\$109,911	\$3,542	\$164,434
Percent	2.1%	-2.7%	9.0%	5.0%	1.7%

EXHIBIT C-1

CITY OF ADRIAN
 ASSESSED VALUE AND TAXABLE VALUE OF REAL AND PERSONAL PROPERTY
 LAST TEN FISCAL YEARS

FISCAL YEAR	RESIDENTIAL PROPERTY	COMMERCIAL PROPERTY	INDUSTRIAL PROPERTY	PERSONAL PROPERTY	TOTAL ASSESSED VALUE	LESS: TAX-EXEMPT PROPERTY	TOTAL TAXABLE VALUE	TOTAL DIRECT TAX RATE
1994-95	\$145,963,900	\$64,909,900	\$12,055,800	\$44,134,000	\$267,063,600	\$5,267,601	\$261,795,999	15.7324
1995-96	152,441,500	67,790,500	12,590,800	46,092,600	278,915,400	10,535,202	268,380,198	15.7024
1996-97	173,909,400	77,337,200	14,364,000	52,583,700	318,194,300	21,070,403	297,123,897	16.5264
1997-98	186,381,200	82,940,200	15,173,100	55,128,500	339,623,000	27,099,237	312,523,763	16.1124
1998-99	197,750,500	85,697,900	15,657,000	58,388,600	357,494,000	31,430,274	326,063,726	16.0524
1999-00	207,205,000	91,202,200	16,182,900	63,786,600	378,376,700	37,218,512	341,158,188	15.7750
2000-01	219,406,000	96,347,600	16,846,400	68,333,300	400,933,300	42,946,813	357,986,487	15.5828
2001-02	232,638,900	101,140,300	18,552,100	66,895,200	419,226,500	48,679,000	370,547,500	15.2443
2002-03	245,113,050	107,306,900	17,777,500	66,333,700	436,531,150	52,971,038	383,560,112	15.2426
2003-04	259,696,900	112,120,800	16,988,700	65,246,100	454,052,500	56,828,160	397,224,340	15.7340

Source: Lenawee County Equalization Report

EXHIBIT C-2

CITY OF ADRIAN
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS

FISCAL YEAR	CITY DIRECT RATES					OVERLAPPING HOMESTEAD TAX RATES			
	BASIC RATE	GENERAL OBLIGATION DEBT SERVICE	SOLID WASTE COLLECTION	LOCAL STREET IMPROVEMENTS	TOTAL DIRECT TAX RATE	INTERMEDIATE SCHOOL DISTRICT*	LENAWEE COUNTY	ADRIAN SCHOOL DISTRICT	MADISON SCHOOL DISTRICT
1994-95	14.1024	0.6300	1.0000	0.0000	15.7324	6.6949	5.2744	7.6000	6.0000
1995-96	14.1024	0.6000	1.0000	0.0000	15.7024	6.6949	5.4203	7.7000	6.0000
1996-97	14.0124	0.5140	1.0000	1.0000	16.5264	6.6949	5.2745	7.4000	6.0000
1997-98	14.0124	0.6000	0.5000	1.0000	16.1124	6.6949	5.7385	7.2000	6.0000
1998-99	14.0124	0.5400	0.5000	1.0000	16.0524	6.6849	5.9178	7.2000	7.5500
1999-00	13.9282	0.5250	0.3254	0.9964	15.7750	6.6073	5.6554	7.0000	7.7000
2000-01	13.8655	0.4000	0.3258	0.9915	15.5828	7.7073	5.6420	7.0000	7.8000
2001-02	13.8544	0.0000	0.3992	0.9907	15.2443	7.6446	5.6165	6.9500	7.8000
2002-03	13.8198	0.0000	0.4338	0.9890	15.2426	7.5465	5.8191	6.0000	7.7500
2003-04	13.7507	0.0000	1.0000	0.9833	15.7340	7.2230	5.7730	6.0000	7.8000

Source: Lenawee County Apportionment Report
* Includes Special Education and Vocational Education

EXHIBIT C-3

CITY OF ADRIAN
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND NINE YEARS AGO

		FY2003-04		FY1994-95	
LOWE'S	TAXPAYER	RETAIL	TYPE OF BUSINESS	PERCENT OF TOTAL TAXABLE VALUE	
				TAXABLE VALUE	RANK
	SOLVAY AUTOMOTIVE		MANUFACTURING	20457400	1
	ANDERSON DEVELOPMENT		MANUFACTURING	17142270	2
	DELPHI AUTOMOTIVE		MANUFACTURING	11696500	3
	VENCHUR'S PACKAGING		MANUFACTURING	6550230	4
	EQUITY ASSETS MANAGEMENT		RETAIL-MALL	6028130	5
	ADRIAN STEEL		MANUFACTURING	4516450	6
	CONSUMERS ENERGY		UTILITY	4395800	7
	BIOLAB, INC.		MANUFACTURING	4341580	8
	CITIZENS GAS & FUEL COMPANY		UTILITY	4336570	9
	MEIJER'S		RETAIL	4234560	10
	ADRIAN FABRICATORS		MANUFACTURING	3941000	11
	CHARLES A GEENAN TRUST		RETAIL	3595970	12
	PEDCOR INVESTMENTS		HOUSING	3154220	13
	IXTLAN PLASTICS TECHNOLOGY		MANUFACTURING	2625000	14
	FISCHER FAMILY TRUST		HOUSING	2402030	15
	DURA, CORP.		MANUFACTURING	2280840	16
	GREAT LAKES CHEMICAL		MANUFACTURING		
	UARCO, INC.		MANUFACTURING		
	GARDEN STATE TANNING		MANUFACTURING		
	CARLTON LODGE		MOTEL		
	MAPLE VILLAGE APARTMENTS		HOUSING		
	FRIENDLY VILLAGE		HOUSING		
	NOB HILL APARTMENTS		HOUSING		
	TOTAL			<u>\$101,698,550</u>	<u>25.60%</u>
			TAXABLE VALUE	\$397,224,340	
				<u>\$54,372,953</u>	<u>20.77%</u>
				\$261,795,999	

SOURCE: City of Adrian Assessing Office

**CITY OF ADRIAN
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN YEARS**

EXHIBIT C-4

<u>FISCAL YEAR</u>	<u>TAXES LEVIED FOR THE FISCAL YEAR</u>	<u>COLLECTED WITHIN THE FISCAL YEAR OF THE LEVY</u>		<u>COLLECTIONS IN SUBSEQUENT YEARS</u>	<u>TOTAL COLLECTIONS TO DATE</u>	
		<u>AMOUNT</u>	<u>PERCENT OF LEVY</u>		<u>AMOUNT</u>	<u>PERCENT OF LEVY</u>
1994-95	\$4,113,983	\$3,888,690	94.52%	\$13,663	\$3,902,353	94.86%
1995-96	4,154,556	3,913,212	94.19%	19,389	3,932,601	94.66%
1996-97	4,330,579	4,201,435	97.02%	1,782	4,203,217	97.06%
1997-98	4,787,379	4,505,009	94.10%	20,780	4,525,789	94.54%
1998-99	5,016,756	4,738,367	94.45%	4,893	4,743,260	94.55%
1999-00	4,962,176	4,822,163	97.18%	19,279	4,841,442	97.57%
2000-01	5,094,237	5,001,594	98.18%	599	5,002,193	98.19%
2001-02	5,210,649	5,129,617	98.44%	5,835	5,135,452	98.56%
2002-03	5,278,776	5,196,857	98.45%	4,113	5,200,970	98.53%
2003-04	6,078,050	5,948,936	97.88%	15,898	5,964,834	98.14%

Source: City of Adrian Department of Treasury

EXHIBIT D-1

CITY OF ADRIAN
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

FISCAL YEAR	AUTO PARKING BONDS	FIRE STATION BONDS	STORM WATER UTILITY BONDS	PARKS & RECREATION INSTALLMENT PURCHASE AGREEMENT	TOTAL GENERAL OBLIGATION BONDS	PARKS & RECREATION LAND CONTRACT	WATER SYSTEM REVENUE BONDS #1	WATER SYSTEM REVENUE BONDS #2	SEWER SYSTEM REVENUE BONDS	SEWER REVOLVING FUND LOAN	DRINKING WATER REVOLVING FUND LOAN	TOTAL PRIMARY GOVT. GOVT.	PERCENT OF PERSONAL INCOME	PER CAPITA
1994-95	\$390,000	\$800,000	\$0	\$0	\$1,190,000	\$0	\$950,000	\$875,000	\$450,000	\$0	\$0	\$3,465,000	0.8%	\$157
1995-96	360,000	700,000	0	0	1,060,000	0	825,000	850,000	425,000	0	0	3,160,000	0.8%	143
1996-97	330,000	600,000	800,000	0	1,730,000	0	675,000	825,000	400,000	0	0	3,630,000	0.9%	164
1997-98	300,000	450,000	760,000	0	1,510,000	102,774	525,000	800,000	200,000	0	0	3,137,774	0.7%	142
1998-99	265,000	300,000	695,000	0	1,260,000	68,351	350,000	775,000	0	0	0	2,453,351	0.5%	111
1999-00	230,000	150,000	625,000	0	1,005,000	1,035,604	175,000	750,000	0	0	0	2,965,604	0.6%	134
2000-01	190,000	0	550,000	962,309	1,702,309	0	0	700,000	0	0	0	2,402,309	0.5%	109
2001-02	150,000	0	470,000	883,644	1,503,644	0	0	475,000	0	0	0	1,978,644	0.4%	89
2002-03	100,000	0	385,000	2,000,391	2,485,391	0	0	250,000	0	2,946,566	4,850,991	10,532,948	2.2%	474
2003-04	50,000	0	295,000	1,810,808	2,155,808	0	0	0	0	8,920,000	5,665,000	16,740,808	3.5%	754

EXHIBIT D-2

CITY OF ADRIAN
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

FISCAL YEAR	PARKS &				TOTAL GENERAL OBLIGATION BONDS	PERCENT OF TAXABLE VALUE OF PROPERTY*	PER CAPITA**
	AUTO PARKING BONDS	FIRE STATION BONDS	STORM WATER UTILITY BONDS	RECREATION INSTALLMENT PURCHASE AGREEMENT			
1994-95	\$390,000	\$800,000	\$0	\$0	\$1,190,000	0.45%	\$53.85
1995-96	360,000	700,000	0	0	1,060,000	0.39%	\$47.97
1996-97	330,000	600,000	800,000	0	1,730,000	0.58%	\$78.29
1997-98	300,000	450,000	760,000	0	1,510,000	0.48%	\$68.34
1998-99	265,000	300,000	695,000	0	1,260,000	0.39%	\$57.02
1999-00	230,000	150,000	625,000	0	1,005,000	0.29%	\$45.48
2000-01	190,000	0	550,000	962,309	1,702,309	0.48%	\$77.04
2001-02	150,000	0	470,000	883,644	1,503,644	0.41%	\$67.69
2002-03	100,000	0	385,000	2,000,391	2,485,391	0.65%	\$111.88
2003-04	50,000	0	295,000	1,810,808	2,155,808	0.54%	\$97.04

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

* See Exhibit C-1 for property value data.

** Population data can be found in Exhibit E-1.

CITY OF ADRIAN
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2004

<u>Governmental Unit</u>	<u>DEBT OUTSTANDING</u>	<u>ESTIMATED PERCENTAGE APPLICABLE*</u>	<u>ESTIMATED SHARE OF OVERLAPPING DEBT</u>
Debt Repaid with Property Taxes			
DIRECT DEBT:			
Installment Loan Purchase	\$1,810,808	100.00%	\$1,810,808
Storm Water Utility Bonds	295,000	100.00%	295,000
Auto parking Bonds	<u>50,000</u>	100.00%	<u>50,000</u>
Net Direct Debt	2,155,808		\$2,155,808
OVERLAPPING DEBT:			
Adrian Public Schools	\$0	54.37%	\$0
Madison School District	2,315,000	35.50%	821,825
Lenawee County	<u>9,945,000</u>	14.78%	<u>1,469,871</u>
Net Overlapping Debt	12,260,000		\$2,291,696

**CITY OF ADRIAN
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS**

Legal Debt Margin Calculation for Fiscal Year FY2003-04

Taxable Value	\$383,560,112
Debt Limit (10% of Taxable Value)	38,356,011
Debt Applicable to Limit:	
Installment Purchase Agreement	1,810,808
Storm Water Utility Bonds	295,000
Auto Parking Bonds	<u>50,000</u>
Total Debt Applicable to Limit	<u>2,155,808</u>
Legal Debt Margin	<u><u>36,200,203</u></u>

	Fiscal Year										
	<u>FY1994-95</u>	<u>FY1995-96</u>	<u>FY1996-97</u>	<u>FY1997-98</u>	<u>FY1998-99</u>	<u>FY1999-00</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>	
Debt Limit	\$25,264,215	\$26,179,600	\$26,838,020	\$29,712,390	\$31,252,376	\$32,606,373	\$34,115,819	\$35,798,649	\$37,054,750	\$38,356,011	
Total Debt Applicable to Limit	1,190,000	1,060,000	1,730,000	1,510,000	1,260,000	1,005,000	1,702,309	1,503,644	2,485,391	2,155,808	
Legal Debt Margin	<u>\$24,074,215</u>	<u>\$25,119,600</u>	<u>\$25,108,020</u>	<u>\$28,202,390</u>	<u>\$29,992,376</u>	<u>\$31,601,373</u>	<u>\$32,413,510</u>	<u>\$34,295,005</u>	<u>\$34,569,359</u>	<u>\$36,200,203</u>	

Total Debt Applicable to Limit
as a Percentage of Debt Limit

	4.71%	4.05%	6.45%	5.08%	4.03%	3.08%	4.99%	4.20%	6.71%	5.62%	
--	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	--

Note: The statutory debt limit of net bonded indebtedness incurred for all public purposes shall not, at any one time, exceed 10% of the State Equalized Valuation of taxable property in the City, except that this limit may be exceeded by 3/8th of one (1%) percent in the case of fire, flood, or other calamity. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds. This limitation does not include bonds issued in anticipation of the payment of special assessments, nor bonds issued pursuant to court order for sewage or garbage disposal system.

The Michigan State Bond Act provides that the total debt in special assessment bonds for which the credit of the City is pledged shall not exceed 12% of the assessed valuation of taxable property of the City, nor shall such bonds be issued in any calendar year in excess of 3% of the assessed valuation of taxable property of the City unless voted.

Source: City Records

CITY OF ADRIAN
PLEDGED REVENUE COVERAGE
LAST TEN FISCAL YEARS

EXHIBIT D-5

FISCAL YEAR	WATER SYSTEM REVENUE BONDS										SEWER SYSTEM REVENUE BONDS									
	UTILITY SERVICE CHARGES	LESS:					NET				UTILITY SERVICE CHARGES	LESS:					NET			
		OPERATING EXPENSES	AVAILABLE REVENUE	DEBT SERVICE			COVERAGE	OPERATING EXPENSES	AVAILABLE REVENUE	DEBT SERVICE			COVERAGE							
				PRINCIPAL	INTEREST					PRINCIPAL		INTEREST								
1994-95	\$2,239,347	\$1,701,122	\$538,225	\$150,000	\$97,112	2.18	\$2,028,120	\$1,777,025	\$251,095	\$25,000	\$23,475	5.18	\$2,028,120	\$1,777,025	\$251,095	\$25,000	\$23,475	5.18		
1995-96	2,278,874	1,683,040	\$595,834	175,000	88,181	2.26	2,157,261	1,822,003	\$335,258	25,000	21,862	7.15	2,157,261	1,822,003	\$335,258	25,000	21,862	7.15		
1996-97	2,324,212	1,637,173	\$687,039	175,000	78,412	2.71	2,519,276	1,471,855	\$1,047,421	200,000	20,500	4.75	2,519,276	1,471,855	\$1,047,421	200,000	20,500	4.75		
1997-98	2,441,216	1,715,810	\$725,406	200,000	67,818	2.71	2,487,902	1,522,438	\$965,464	200,000	10,000	4.60	2,487,902	1,522,438	\$965,464	200,000	10,000	4.60		
1998-99	2,432,835	1,470,451	\$962,384	200,000	56,437	3.75	2,493,407	1,519,952	\$973,455	0	0		2,493,407	1,519,952	\$973,455	0	0			
1999-00	2,475,380	1,659,934	\$815,446	225,000	45,788	3.01	2,599,332	1,721,121	\$878,211	0	0		2,599,332	1,721,121	\$878,211	0	0			
2000-01	2,410,259	1,648,469	\$761,790	962,309	34,200	0.76	2,627,112	1,976,128	\$650,984	0	0		2,627,112	1,976,128	\$650,984	0	0			
2001-02	2,579,797	1,784,152	\$795,645	225,000	20,812	3.24	2,473,320	1,800,137	\$673,183	0	0		2,473,320	1,800,137	\$673,183	0	0			
2002-03	2,737,791	2,363,646	\$374,145	250,000	7,031	1.46	2,275,150	2,011,722	\$263,428	0	0		2,275,150	2,011,722	\$263,428	0	0			
2003-04	2,773,621	2,093,464	\$680,157	0	0		2,543,309	2,142,717	\$400,592	0	0		2,543,309	2,142,717	\$400,592	0	0			

CITY OF ADRIAN
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

EXHIBIT E-1

FISCAL YEAR	PER CAPITA				SCHOOL ENROLLMENT	UNEMPLOYMENT RATES
	PERSONAL POPULATION	PERSONAL INCOME	MEDIAN AGE	PERSONAL INCOME		
1994-95	22,097	\$409,457,410	32.6	\$18,530	4,785	7.0%
1995-96	22,097	\$409,457,410	32.6	\$18,530	4,719	3.9%
1996-97	22,097	\$409,457,410	32.6	\$18,530	4,572	3.7%
1997-98	22,097	\$473,649,195	32.6	\$21,435	4,375	2.0%
1998-99	22,097	\$473,649,195	32.6	\$21,435	4,279	2.5%
1999-00	22,097	\$473,649,195	32.6	\$21,435	4,291	2.6%
2000-01	22,097	\$473,649,195	31.6	\$21,435	4,075	7.8%
2001-02	22,215	\$479,577,420	31.6	\$21,588	3,980	6.7%
2002-03	22,215	\$477,889,080	31.6	\$21,512	3,972	8.4%
2003-04	22,215	\$477,889,080	31.6	\$21,512	3,820	7.8%

Sources: Population, Personal Income and Median Age from U.S. Census Bureau; School Enrollments from Adrian Board of Education; Unemployment Rates from Michigan Employment Security Commission.

EXHIBIT E-2

CITY OF ADRIAN
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	FY 2003-04		FY1994-95*	
	EMPLOYEES	PERCENTAGE OF TOTAL CITY EMPLOYMENT	EMPLOYEES	PERCENTAGE OF TOTAL CITY EMPLOYMENT
EMPLOYER	RANK		RANK	
Lenawee Health Alliance	1,265	3.6%		
Merillat Industries	820	2.3%		
Adrian Public Schools	630	1.8%		
Michigan Dept. of Corrections	575	1.6%		
Lenawee County	550	1.6%		
Delphi	550	1.6%		
Wacker Chemical Corp.	514	1.5%		
Meijer, Inc.	400	1.1%		
Lenawee Intermediate School District	351	1.0%		
Siena Heights University	300	0.9%		
Hydro Aluminum	254	0.7%		
Wal-Mart	220	0.6%		
Lenawee Medical Care Facility	187	0.5%		
Inergy Automotive	183	0.5%		
Madison School District	170	0.5%		
City of Adrian	169	0.5%		
Cargotainer/Adrian Fabricators	161	0.5%		
Brazeway, Inc.	140	0.4%		
Lowe's of Adrian	138	0.4%		
Adrian College	137	0.4%		
	7,714	22.0%		
Total City Employment	35,000	100.0%		

Source: Lenawee County Chamber of Commerce

*Note: 1994-95 data not available; history will be built.

EXHIBIT F-1

CITY OF ADRIAN
FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

<u>FUNCTION/PROGRAM</u>	<u>FY1994-95</u>	<u>FY1995-96</u>	<u>FY1996-97</u>	<u>FY1997-98</u>	<u>FY1998-99</u>	<u>FY1999-2000</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>
City Administrator	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Finance Department	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
City Assessor	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
City Clerk	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.5	1.5
City Attorney	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Human Resources	0.7	0.7	0.7	0.7	0.7	0.7	0.7	1.2	1.2	1.2
Cemetery	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Community Development	5.0	5.0	3.0	3.0	3.0	4.0	5.0	4.5	5.0	5.0
Public Works	9.5	9.5	15.5	15.5	15.5	15.5	14.5	14.5	15.5	15.5
Parks and Recreation	8.0	8.0	7.5	7.5	7.5	8.0	8.0	8.0	8.0	8.0
Parks and Forestry	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Public Library	9.0	9.0	9.0	9.0	8.0	8.0	8.0	8.0	8.0	8.0
Police Department	38.0	38.5	35.5	34.5	37.5	40.0	37.0	37.0	37.0	37.0
Fire Department	22.0	22.0	20.0	20.0	20.0	20.0	19.0	19.0	20.0	20.0
Utilities Department	39.0	39.0	39.0	38.0	37.0	38.0	40.0	41.0	40.0	42.0
Total	159.5	160.0	158.5	156.5	157.5	162.5	160.5	161.5	162.5	164.5

Source: City Finance Department

CITY OF ADRIAN
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

EXHIBIT F-2

<u>FUNCTION/PROGRAM</u>	<u>FY1994-95</u>	<u>FY1995-96</u>	<u>FY1996-97</u>	<u>FY1997-98</u>	<u>FY1998-99</u>	<u>FY1999-2000</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>
Police Department										
Physical Arrests	780	780	780	780	783	609	789	986	1,010	1,034
Parking Violations	12,000	12,138	9,994	11,020	8,449	9,161	8,450	8,121	8,098	8,190
Traffic Violations	5,800	5,807	5,050	2,994	2,771	2,288	3,200	3,600	3,500	3,964
Fire Department										
Emergency Responses	1,791	1,902	2,047	1,975	2,151	2,220	2,163	2,243	1,970	2,156
Fires Extinguished	72	80	85	96	101	133	117	85	83	68
Refuse Collection										
Refuse Collected (tons)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	8,238	6,789
Recyclables (tons)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	762	900
Public Works										
Street Resurfacing (miles)	4.2	10.7	5.4	6.6	3.9	4.0	4.5	3.5	2.9	214.7
Cold/Hot Patch Repair (tons)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	235.98	
Parks and Recreation										
Athletic Field Permits Issued	180	196	182	202	179	167	161	179	173	173
Program Participants	19,333	28,248	36,439	34,245	30,868	38,554	37,981	37,249	34,874	35,118
Public Library										
Volumes in Collection	76,563	77,257	78,733	77,951	81,335	77,335	79,500	82,301	85,950	90,000
Total Volumes Borrowed	90,652	73,571	68,685	73,571	67,684	73,191	70,619	75,106	77,181	79,000
Water										
New Connections	17	9	54	17	58	28	1	41	34	28
Water Main Breaks						12	28	33	30	15
Average Daily Consumption (thousands of gallons)	3,590	3,644	3,609	3,436	3,773	3,785	3,397	3,517	3,613	3,580
Peak Daily Consumption (thousands of gallons)	5,536	5,890	5,851	5,268	5,406	6,070	5,030	5,520	5,620	5,581
Waste Water										
Average Daily Sewage Treatment (thousands of gallons)	4,671	5,642	6,119	5,748	6,954	6,007	5,618	5,742	5,282	5,230
Transit										
Total Route Miles	147,278	133,752	131,464	143,330	150,683	153,349	149,986	161,731	159,491	156,934
Passengers	95,906	84,134	80,629	83,900	88,601	95,900	92,337	95,724	91,657	91,138

Sources: Various Departments

EXHIBIT F-3

CITY OF ADRIAN
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

<u>FUNCTION/PROGRAM</u>	<u>FY1994-95</u>	<u>FY1995-96</u>	<u>FY1996-97</u>	<u>FY1997-98</u>	<u>FY1998-99</u>	<u>FY1999-2000</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>
Police Department										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Vehicles	14	14	14	14	16	16	16	16	16	16
Motorcycles	0	0	0	0	2	2	2	4	5	2
Fire Department										
Stations	1	1	1	1	1	1	1	1	1	1
Emergency Vehicles	6	7	7	7	7	7	7	7	7	7
Hydrants	482	521	525	527	538	559	559	559	482	482
Public Works										
Streets (miles)	43.5	43.5	43.5	43.5	43.5	43.5	43.5	43.5	43.5	43.5
Highways (miles)	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2
Streetslights	874	874	874	874	874	874	875	875	874	874
Traffic Signals	26	26	26	26	26	26	26	26	26	26
Parking Spaces	814	814	814	814	814	814	814	814	814	814
Parks and Recreation										
Acreage	612	612	666	672	672	672	672	672	672	672
Playgrounds	5	5	5	5	6	6	6	6	6	6
Baseball Diamonds	10	10	10	10	10	10	10	10	10	10
Soccer Fields	0	0	0	0	0	0	0	5	5	5
Community Centers	1	1	1	1	1	1	1	1	1	1
Water										
Water Mains (miles)	86.47	87.26	87.75	90.20	90.20	91.20	91.20	91.20	91.20	93.00
Customers	6,452	6,473	6,414	6,615	6,651	6,693	6,609	6,473	6,631	6,652
Storage Capacity	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
(thousands of gallons)										
Average Pumpage	3,029,304	2,914,263	2,958,517	3,200,000	3,300,000	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000
(gallons/day)										
Waste Water										
Sanitary Sewers (miles)	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42
Sanitary Sewers (miles)	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42
Treatment Capacity	12,000,000	12,000,000	12,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
(gallons/day)										
Transit										
Minibuses	5	5	5	6	6	6	6	6	7	7

Sources: Various Departments

August 6, 2004

Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

We have audited the financial statements of the City of Adrian, Michigan and the combining, individual fund and account group financial statements of the City of Adrian, Michigan as of and for the year ended June 30, 2004, and have issued our report thereon dated August 6, 2004.

In planning and performing our audit of the financial statements of the City of Adrian, Michigan for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the City of Adrian, Michigan is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we are reporting to you in the remainder of this report. This report is intended solely for the use of management and should not be used for any other purpose.

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August 6, 2004

Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

AUDIT COMMENTS – PRIOR YEAR

During our audit, we noticed that areas we commented on last year are being worked on or have improved. These areas include computerizing certain accounting procedures and procedures on new hires.

One area where work still needs to be done is the old personal property tax receivables on the City's books. The City should investigate these receivables for any possible collection. If determined uncollectible, the receivables should be formally written off.

NEW STATISTICAL SECTION

We are pleased to see the City has initiated the inclusion of the new statistical data section in its Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2004. This has been done prior to the required date of implementation by the Governmental Accounting Standards Board which is commendable.

The expanded financial and statistical information found in the CAFR provides a better picture of the economic condition of the City and economic environment in which the City operates.

BUDGETING

When budget amendments are made, it is important that the total amended budgetary expenditures of a fund do not exceed the amended budgetary revenues plus the fund's equity.

In other words, the City needs to watch amending budgetary expenditures which result in placing a fund in a deficit position.

PENSION PLAN

As a continuing update on the City's Pension Plan with MERS (Municipal Employees' Retirement System of Michigan), following is the financial condition of the plan at December 31, 2003.

According to the latest actuarial valuation (for the year ended December 31, 2003), the Pension Plan was under funded by \$2,759,994. At December 31, 2002, the plan was under funded by \$1,565,129.

The City's projected contribution to the Pension Plan for 2004-05 is \$423,912.

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August 6, 2004

Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

FINANCIAL CONDITION

The City continues to be in good financial condition. At June 30, 2004, the General Fund has a total fund balance of \$7,237,093, which is down slightly from last year's fund balance of \$7,468,554. The unreserved portion of the fund balance (designated and undesignated) of the General Fund is \$6,309,600 at June 30, 2004 compared to \$5,588,179 at June 30, 2003. The increase is due mainly to reserving fewer encumbrances (carryforwards) at June 30, 2004 then at June 30, 2003, reflecting an accounting approach that moved a portion of carryforward appropriations into designated fund balance.

All funds of the City had positive equity balances at June 30, 2004. But, as noted in the past, the Automobile Parking System and the Storm Water Utility Fund have relatively low unrestricted fund equities. The Automobile Parking System had unrestricted equity of \$20,506 and the Storm Water Utility had equity of \$18,404 at June 30, 2004.

Again, we appreciate the assistance provided by the City during our audit.

Robertson, Eaton & Owen, P.C.